

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”) or any state securities laws, and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States of America or its territories or possessions or to or for the account or benefit of any U.S. person. See “Plan of Distribution”.

Information has been incorporated by reference in this prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary, National Bank of Canada, National Bank Tower, 600 de La Gauchetière Street West, Montréal, Québec, H3B 4L2, (514) 394-6081 and are also available electronically at [www.sedar.com](http://www.sedar.com).

## Short Form Prospectus

New Issue

June 25, 2008



## NBC ASSET TRUST™

(a trust established under the laws of Ontario)

**\$350,000,000**

**350,000 Trust Capital Securities— Series 2**

**(NBC CapS II™ — Series 2)**

NBC Asset Trust (the “Trust”) is a closed-end trust established under the laws of Ontario by Natcan Trust Company (the “Trustee”), a subsidiary of National Bank of Canada (the “Bank”), pursuant to a declaration of trust (the “Declaration of Trust”). The Trust proposes to issue and sell to investors pursuant to this prospectus (the “Offering”) a second series of transferable trust units called Trust Capital Securities – Series 2 or “NBC CapS II – Series 2”, each of which represents an undivided beneficial ownership interest in the Trust Assets (as defined herein), comprised of Residential Mortgages, Mortgage Co-Ownership Interests, Mortgage-Backed Securities, Eligible Investments (each as defined herein) and contractual rights of the Trust in respect of the activities and operations of the Trust. The Offering will provide the Bank with a cost-effective means of raising capital for Canadian bank regulatory purposes. The NBC CapS II – Series 2 will constitute the second series of Trust Capital Securities (the “NBC CapS II”) issued by the Trust, the first series in an amount of \$400,000,000 and designated Trust Capital Securities – Series 1 (the “NBC CapS II – Series 1”) having been issued by the Trust on January 22, 2008. The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction.

The Trust distributes its Net Distributable Funds (as defined herein) on the last day of June and December of each year (each, a “Distribution Date”). On each Distribution Date commencing December 31, 2008 to and including June 30, 2020, unless the Bank has failed to declare Dividends (as defined herein) on the basis described herein, a holder of NBC CapS II – Series 2 will be entitled to receive a non-cumulative fixed cash distribution (an “Indicated Distribution”) of \$37.235 per NBC CapS II – Series 2, representing a per annum yield of 7.447% of the \$1,000 initial issue price. On each Regular Distribution Date following June 30, 2020, the Indicated Distribution per NBC CapS II – Series 2 will be determined by multiplying \$1,000 by one half of the sum of the Bankers’ Acceptance Rate (as herein defined) for the Distribution Period (as herein defined) immediately preceding such Distribution Date plus 409 basis points. Each Distribution Date will be either a Regular Distribution Date (as defined herein) or a Distribution Diversion Date (as defined herein). A Distribution Date will be a Regular Distribution Date if the Bank has declared Dividends in the ordinary course as described under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Indicated Distribution”. On a Regular Distribution Date, the applicable Indicated Distribution will be payable by the Trust on all NBC CapS II (including the NBC CapS II – Series 2). If, on December 31 of any year, Net Distributable Funds (as defined herein) of the Trust remain after payment of the Indicated Distribution on each series of NBC CapS II on each Regular Distribution Date in such year, the Bank as sole holder of the Special Trust Securities (as defined herein) will be entitled to receive such remaining Net Distributable Funds on that date. Any Distribution Date will be a Distribution Diversion Date if the Bank has failed to declare Dividends on the basis described herein. **In such event, the Indicated Distribution will not be payable by the Trust on any NBC CapS II (including the NBC CapS II – Series 2) on a Distribution Diversion Date and, instead, the Net Distributable Funds of the Trust as at such Distribution Diversion Date will be payable to the Bank as the sole holder of Special Trust Securities.**

™ Trade marks of the Bank used under license by the Trust.

Pursuant to the terms of a Bank Share Exchange Trust Agreement to be entered into between the Bank, the Exchange Trustee (as defined herein) and the Trust (the “Bank Share Exchange Agreement”), the Bank will covenant for the benefit of holders of NBC CapS II – Series 2 (the “Dividend Stopper Undertakings”) that if, on any Regular Distribution Date, the Trust fails to pay the Indicated Distribution in full on the NBC CapS II – Series 2, the Bank will not declare dividends of any kind on any preferred shares or common shares of the Bank (the “Bank Common Shares” and collectively with preferred shares, the “Dividend Restricted Shares”) until the month commencing immediately after the third Dividend Declaration Month (as defined herein) following the Trust’s failure to pay the Indicated Distribution unless the Trust first pays such Indicated Distribution (or the unpaid portion thereof) to holders of NBC CapS II – Series 2. **It is in the interest of the Bank to ensure, to the extent within its control, that the Trust pay the Indicated Distribution on the NBC CapS II – Series 2 on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.** See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Bank Dividend Stopper Undertakings” and “Risk Factors”.

Each NBC CapS II – Series 2 will be exchanged automatically (the “Automatic Exchange”), without the consent of the holder, for 40 newly issued non-cumulative, perpetual First Preferred Shares, Series 23 of the Bank (“Bank Preferred Shares Series 23”) if: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-Up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent of Financial Institutions (Canada) (the “Superintendent”) advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the *Bank Act* (Canada) (the “Bank Act”); (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 Capital ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; (iv) the Board of Directors advises the Superintendent in writing that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; or (v) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the Automatic Exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein (each, a “Loss Absorption Event”). Following the Automatic Exchange, holders of NBC CapS II – Series 2 will cease to have any claim or entitlement in relation to the NBC CapS II – Series 2 or the Trust Assets (as defined herein). **If the Automatic Exchange were to occur and Bank Preferred Shares Series 23 were issued in exchange for NBC CapS II – Series 2, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the NBC CapS II – Series 2 would be lost. Accordingly, it is in the interest of the Bank to ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the control of the Bank.** See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange” and “Description of Bank Preferred Shares Series 23”.

Upon the occurrence of a Tax Event (as defined herein) or a Capital Disqualification Event (as defined herein and, collectively with the Tax Event, a “Special Event”), in each case prior to July 31, 2013, the Trust may, with Superintendent Approval, at its option, upon at least 30 and not more than 90 days’ prior written notice, redeem (the “Trust Special Event Redemption Right”) the NBC CapS II – Series 2 in whole (but not in part) without the consent of the holders, for a cash amount per NBC CapS II – Series 2 (the “Early Redemption Price”) equal to the greater of: (i) the Redemption Price (as defined herein); and (ii) the NBC CapS II – Series 2 Canada Yield Price (as defined herein). See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Trust Special Event Redemption Right”.

On July 31, 2013 and on any Distribution Date thereafter, the Trust may, with Superintendent Approval (as defined herein), at its option, upon at least 30 and not more than 60 days’ prior written notice, redeem (the “Trust Redemption Right”) the NBC CapS II – Series 2 in whole (but not in part) without the consent of the holders, for a cash amount per NBC CapS II – Series 2 equal to: (i) the Early Redemption Price if the redemption occurs prior to June 30, 2020; or (ii) the Redemption Price if the redemption occurs on or after June 30, 2020. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Trust Redemption Right”.

NBC CapS II – Series 2 will not be redeemable or exchangeable for Bank Preferred Shares at the option of the holders.

It is expected that the Trust Assets will be purchased primarily from the Bank or its affiliates. The Bank acts as Administrative Agent (as defined herein) to the Trust and the Bank or its affiliates collectively will act as Servicer (as defined herein) of the Trust Assets. See “Activities of the Trust - Description of Eligible Trust Assets” and “Activities of the Trust - The Administrative Agent”.

**An investment in NBC CapS II – Series 2 could be replaced in certain circumstances, without the consent of the holder, by an investment in Bank Preferred Shares Series 23. Investors should therefore carefully consider the disclosure with respect to the Bank included and incorporated by reference in this prospectus. An investment in NBC CapS II – Series 2 is subject to certain risks. See “Risk Factors”.**

It is not expected that the NBC CapS II – Series 2 will be listed on any stock exchange. There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities, and the extent of issuer regulation. See “Risk Factors”.

The Bank will undertake, pursuant to the Bank Share Exchange Agreement, to take all such actions as are necessary to permit the Bank Preferred Shares Series 23 delivered pursuant to the Automatic Exchange to be listed, quoted or posted for trading on a Canadian stock exchange or quotation system and to take such reasonable steps as may be necessary to ensure that such Bank Preferred Shares Series 23 remain so listed, quoted or posted for trading. The Trust is a registered investment for purposes of the *Income Tax Act* (Canada) (the “Tax Act”) and, as such, the NBC CapS II – Series 2 will be qualified investments for RRSFs, RRFs, DPSPs, RESPs and RDSPs. See “Eligibility for Investment”.

---

**Price: \$1,000 per NBC CapS II – Series 2**

---

The Underwriters (as defined herein), as principals, conditionally offer the NBC CapS II – Series 2, subject to prior sale if, as and when issued by the Trust and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under “Plan of Distribution”, subject to the approval of certain legal matters on behalf of the Bank and the Trust by McCarthy Tétrault LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP. **National Bank Financial Inc. is an indirect wholly-owned subsidiary of the Bank. Each of the Trust and the Bank is a related issuer of National Bank Financial Inc. under applicable securities legislation by virtue of the Bank’s interest in the Trust and National Bank Financial Inc. See “Plan of Distribution”.** This prospectus also qualifies for distribution the Automatic Exchange and the Subscription Right (as defined herein).

	<u>Price to the Public</u>	<u>Underwriters' Fee<sup>(1)</sup></u>	<u>Net Proceeds to the Trust<sup>(1)</sup></u>
Per NBC CapS II – Series 2 .....	\$1,000	\$10	\$990
Total.....	\$350,000,000	\$3,500,000	\$346,500,000

(1) Before deduction of expenses of the Offering, estimated at \$425,000 which, together with the Underwriters’ fee, are payable by the Trust with funds borrowed under the Credit Facility. See “Activity of the Trust – Liquidity”.

Subscriptions for the NBC CapS II – Series 2 will be received by the Underwriters subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the closing date for the Offering (the “Closing Date”) will be on or about June 30, 2008 or such later date as the Trust, the Bank and the Underwriters may agree, but in any event not later than July 25, 2008. The NBC CapS II – Series 2 will be issued in “book-entry only” form and, accordingly, physical certificates representing NBC CapS II – Series 2 will not be available except in limited circumstances. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Book-Entry Only Form”.

The Trust’s head and registered office is located at the National Bank Tower, 600 de la Gauchetière Street West, 4<sup>th</sup> Floor, Montréal, Québec, H3B 4L2.

## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>		
ELIGIBILITY FOR INVESTMENT.....	5	MATERIAL CONTRACTS.....	41
DOCUMENTS INCORPORATED BY REFERENCE.....	5	RISK FACTORS.....	42
PROSPECTUS SUMMARY.....	7	PRINCIPAL HOLDERS OF SECURITIES .....	44
GLOSSARY.....	14	INTERESTS OF THE BANK AND ITS AFFILIATES	
THE TRUST.....	21	IN MATERIAL TRANSACTIONS.....	44
THE BANK.....	22	LEGAL MATTERS.....	44
RECENT DEVELOPMENTS.....	24	TRANSFER AGENT AND REGISTRAR AND	
ACTIVITIES OF THE TRUST.....	24	EXCHANGE TRUSTEE.....	44
CAPITALIZATION OF THE TRUST.....	26	AUDITORS.....	45
DESCRIPTION OF THE TRUST SECURITIES.....	27	LEGAL PROCEEDINGS.....	45
DESCRIPTION OF BANK PREFERRED SHARES		PROMOTER.....	45
SERIES 23.....	34	STATUTORY RIGHTS OF WITHDRAWAL AND	
CANADIAN FEDERAL INCOME TAX		RESCISSION.....	45
CONSIDERATIONS.....	37	CERTIFICATE OF THE TRUST.....	C-1
PLAN OF DISTRIBUTION.....	40	CERTIFICATE OF NATIONAL BANK OF CANADAC-2	
RATINGS.....	40	CERTIFICATE OF THE UNDERWRITERS.....	C-3
PRIOR SALES.....	41	AUDITORS' CONSENT.....	C-4
USE OF PROCEEDS.....	41		

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, the Bank makes written and oral forward-looking statements such as those contained in the “Major Economic Trends and Challenges” section and under “2008 Objectives” in the “Overview” section, in each case of the Bank’s Annual Report for the year ended October 31, 2007, in the “2008 Financial Objectives” section of the Bank’s Report to Shareholders for the Quarter ended April 30, 2008, both incorporated by reference in this short form prospectus, in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission and in other communications, for the purpose of describing the economic environment in which the Bank will operate during fiscal 2008 and the objectives it has set for itself for that period. Such statements are made pursuant to Canadian securities regulations and the provisions of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements with respect to the economy (in particular, the Canadian and U.S. economies), market changes, the achievement of strategic priorities and objectives, future strategies and actions, the price of Bank shares, certain risks as well as statements with respect to our beliefs, plans, expectations, estimates and intentions. These forward-looking statements are typically identified by the words “may,” “could,” “should,” “would,” “suspect,” “outlook,” “believe,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” and words and expressions of similar import.

By their very nature, such forward-looking statements require the Bank to make assumptions and involve inherent risks and uncertainties, both general and specific. Assumptions about the performance of the Canadian and U.S. economies in 2008 and how that will affect the Bank’s business are material factors considered in setting the Bank’s strategic priorities and objectives, and in determining its financial targets, including provisions for credit losses. Key assumptions include that economic growth in Canada and the United States will be modest in 2008 and that inflation will remain low in North America. The Bank has also assumed that interest rates in Canada and the United States will decline slightly in 2008 and that the Canadian dollar will likely trade at parity with the U.S. dollar at the end of the year. In determining its expectation for economic growth, both broadly and in the financial services sector, the Bank primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Tax laws in the countries in which the Bank operates, primarily Canada and the United States, are material factors it considers when establishing its sustainable effective tax rate. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank’s control, which include, but are not limited to, the management of credit, market and liquidity risks; the strength of the Canadian and United States economies and the economies of other countries in which the Bank conducts business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada; the effects of competition in the markets in which the Bank operates; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial or regulatory judgments and legal proceedings; developments with respect to the restructuring proposal relating to asset-backed commercial paper (ABCP) and liquidity in the ABCP market; the Bank’s ability to obtain accurate and complete information

from or on behalf of its clients or counterparties; the Bank's ability to successfully realign its organization, resources and processes; its ability to complete strategic acquisitions and integrate them successfully; changes in the accounting policies and methods the Bank uses to report its financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors that may affect future results, including changes in trade policies, timely development of new products and services, changes in estimates relating to reserves, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits; natural disasters; the possible impact on the business from public health emergencies, conflicts, other international events and other developments, including those relating to the war on terrorism; and the Bank's success in anticipating and managing the foregoing risks. See "Risk Factors".

The foregoing list of important factors is not exhaustive. When relying on the Bank's and the Trust's forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. The Bank and the Trust do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Bank or the Trust unless required by applicable laws.

Additional information about these factors can be found under the "Risk management" and "Additional risks that may affect future results" sections in the Bank's management's discussion and analysis for the year ended October 31, 2007 incorporated by reference herein.

### **ELIGIBILITY FOR INVESTMENT**

The Trust is a registered investment for purposes of the Tax Act and, as such, in the opinion of McCarthy Tétrault LLP, on behalf of the Bank and the Trust, and Osler, Hoskin & Harcourt LLP, on behalf of the Underwriters, the NBC CapS II – Series 2 would, if issued on the date hereof, be qualified investments under the Tax Act for RRSPs, RRIFs, DPSPs, RESPs and RDSPs.

**THE NBC CAPS II – SERIES 2, WHILE EXCHANGEABLE IN CERTAIN CIRCUMSTANCES FOR PREFERRED SHARES OF THE BANK, DO NOT REPRESENT OBLIGATIONS OF OR INTERESTS IN AND ARE NOT GUARANTEED OR INSURED BY NATIONAL BANK OF CANADA, NATCAN TRUST COMPANY OR ANY OF THEIR RESPECTIVE AGENTS OR AFFILIATES. THE NBC CAPS II – SERIES 2 ARE NOT INSURED OR GUARANTEED BY THE CANADA DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY OR INSTRUMENTALITY.**

### **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents have been filed by the Bank with the various securities commissions or similar authorities in each of the provinces of Canada and with the Superintendent, are specifically incorporated by reference in, and form an integral part of, this prospectus:

- (a) the Bank's Annual Information Form dated January 16, 2008;
- (b) the Bank's Unaudited Consolidated Financial Statements for the quarter ended April 30, 2008, which include comparative unaudited consolidated financial statements for the quarter ended April 30, 2007, together with the Management's Discussion and Analysis as contained in the Bank's Report to Shareholders for the Second Quarter 2008;
- (c) the Bank's Audited Consolidated Financial Statements for the year ended October 31, 2007, which include comparative consolidated financial statements for the year ended October 31, 2006, together with the Management's Discussion and Analysis as contained in the Bank's Annual Report for the year ended October 31, 2007;
- (d) the Auditors' Report issued to the shareholders of the Bank on the consolidated financial statements as at October 31, 2007 and 2006 and for the years then ended;
- (e) the Bank's Management Proxy Circular dated January 11, 2008 in connection with the Bank's annual meeting of shareholders held on February 29, 2008;

- (f) the Bank's Material Change Report dated November 29, 2007 concerning the charge of \$365 million, after tax and compensation adjustments, relating to its holding of ABCP recorded in the fourth quarter ended October 31, 2007; and
- (g) the Bank's Material Change Report dated December 21, 2007 concerning the decision of Michel Tremblay, Chief Operating Officer, Personal and Commercial Banking and Wealth Management, to leave the Bank.

**Any documents of the type referred to in the preceding paragraph and any unaudited interim consolidated financial statements for three, six or nine-month financial periods, any information circulars, any material change reports (excluding confidential material change reports), any business acquisition reports and any other disclosure documents filed by the Bank or the Trust with a securities regulatory authority in Canada, after the date of this prospectus and prior to the completion or withdrawal of this Offering, will be deemed to be incorporated by reference in this prospectus.**

**Any statement contained in this prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement is not to be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.**

## PROSPECTUS SUMMARY

*The following is a summary only and is qualified in its entirety by and should be read in conjunction with the more detailed information appearing elsewhere or incorporated by reference in this prospectus. Reference is made to the Glossary section for the meaning of certain defined terms.*

### THE OFFERING

<b>Issuer:</b>	NBC Asset Trust, a closed-end trust established under the laws of the Province of Ontario pursuant to the Declaration of Trust.
<b>Offering:</b>	350,000 Trust Capital Securities – Series 2 (“NBC CapS II – Series 2”), being a series of a class of units of the Trust.
<b>Amount of Offering:</b>	\$350,000,000
<b>Price:</b>	\$1,000 per NBC CapS II – Series 2.
<b>Ratings:</b>	The NBC CapS II – Series 2 have been provisionally rated “A” by DBRS Limited (“DBRS”), “A1” by Moody’s Investors Service Canada Inc., (“Moody’s”) and “P-2 (High)” Canadian National Scale and “BBB+” Global Scale by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation (“S&P”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization.
<b>Use of Proceeds:</b>	The gross proceeds to the Trust from the Offering of \$350,000,000 will be used to fund the acquisition by the Trust of the Trust Assets from the Bank. The Bank, in turn, intends to use the proceeds from the sale of the Trust Assets for general corporate purposes. The Bank expects that the proceeds from the sale of the NBC CapS II – Series 2 will be included in the Tier 1 Capital of the Bank (assuming the Superintendent approves the inclusion of the NBC CapS II – Series 2 as Tier 1 Capital of the Bank). See “Use of Proceeds”.
<b>Indicated Distribution:</b>	Each NBC CapS II – Series 2 entitles the holder to receive the Indicated Distribution of: (i) \$37.235 on the last day of June and December of each year commencing December 31, 2008 to and including June 30, 2020 provided that such date is a Regular Distribution Date, representing a per annum yield of 7.447% of the initial issue price; and (ii) on Regular Distribution Dates following June 30, 2020, an amount equal to the result obtained by multiplying \$1,000 by one half of the sum of the Bankers’ Acceptance Rate in effect during the Distribution Period immediately preceding the Relevant Distribution Date plus 409 basis points. A Distribution Date will be a Regular Distribution Date unless the Bank has failed to declare (such failure being a “Distribution Diversion Event”) regular dividends on preferred shares of the Bank, or if no such shares are then outstanding, on the Bank Common Shares, in accordance with the Bank’s ordinary dividend practice in effect from time to time (in either case, a “Dividend”) in the Reference Dividend Declaration Month. The Reference Dividend Declaration Month in respect of any Distribution Date (other than December 31, 2008) is the most recent Dividend Declaration Month preceding the commencement of the Distribution Period ending on the day preceding the Distribution Date. The Reference Dividend Declaration Month in respect of the December 31, 2008 Distribution Date for the NBC CapS II – Series 2 is the month of June, 2008. Accordingly, whether the Indicated Distribution on any NBC CapS II – Series 2 will be payable by the Trust on any Distribution Date will be determined prior to the commencement of the Distribution Period ended on the day preceding such Distribution Date. On any Regular Distribution Date, the Indicated Distribution will be payable by the Trust to each holder of NBC CapS II – Series 2. If, on December 31 of any year, Net Distributable Funds of the Trust remain after payment of the Indicated Distribution on each series of NBC CapS II on each Regular Distribution Date in such year, the Bank as sole holder of the Special Trust Securities will be entitled to receive such remaining Net Distributable Funds on that date. The Indicated Distribution on the NBC CapS II – Series 2 will not be payable

by the Trust on a Distribution Diversion Date. Instead, the Net Distributable Funds of the Trust will be distributed to the Bank as the sole holder of the Special Trust Securities. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Indicated Distribution”.

**Bank Dividend Stopper Undertakings:**

Pursuant to the terms of a Bank Share Exchange Agreement to be entered into on the closing of the Offering, the Bank will covenant for the benefit of holders of the NBC CapS II – Series 2 that, if the Trust fails to pay the Indicated Distribution in full on the NBC CapS II – Series 2 on any Regular Distribution Date, the Bank will not declare dividends of any kind on the Dividend Restricted Shares until the Dividend Declaration Resumption Month, being the month commencing immediately after the third Dividend Declaration Month following the Trust’s failure to pay the Indicated Distribution unless the Trust first pays such Indicated Distribution (or the unpaid portion thereof) to holders of the NBC CapS II – Series 2. **It is in the interest of the Bank to ensure, to the extent within its control, that the Trust pay the Indicated Distribution on the NBC CapS II – Series 2 on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.** See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Bank Dividend Stopper Undertakings” and “Risk Factors”.

Set forth below is a table indicating the relationship among the Reference Dividend Declaration Month, the Distribution Period, the Distribution Date and the Dividend Declaration Resumption Month for the NBC CapS II – Series 2:

<u>Reference Dividend Declaration Month<sup>(1)</sup></u>	<u>Commencement of Current Distribution Period<sup>(2)</sup></u>	<u>Distribution Date</u>	<u>Dividend Declaration Resumption Month<sup>(1), (3)</sup></u>
June 2008	Closing Date	December 31, 2008	September 2009
December 2008	December 31, 2008	June 30, 2009	March 2010
June 2009	June 30, 2009	December 31, 2009	September 2010

(1) The Reference Dividend Declaration Months and the Dividend Declaration Resumption Months are based on the Bank’s current practice with respect to declaring Dividends. If such practice were to change in the future in terms of the timing or frequency of the declaration of Dividends, the Reference Dividend Declaration Months and the Dividend Declaration Resumption Months referred to above may change. The Reference Dividend Declaration Month in respect of any Distribution Date would, in all events, continue to be the Dividend Declaration Month closest to but preceding the commencement of the Distribution Period ended on the day preceding such Distribution Date. Accordingly, whether the Bank declares Dividends in the months of March or September on its preferred shares or, if no such shares are then outstanding, on Bank Common Shares, will have no effect on whether the Indicated Distribution is payable on the NBC CapS II – Series 2 on any Distribution Date.

(2) Prior to the commencement of any Distribution Period, the question of whether the Distribution Date falling on the day after the last day of such Distribution Period will be a Regular Distribution Date or a Distribution Diversion Date, and the entitlement of holders of the NBC CapS II – Series 2, will have been determined.

(3) The Dividend Declaration Resumption Month is only relevant if the Trust fails to pay the Indicated Distribution in full on the NBC CapS II – Series 2 on any Regular Distribution Date.

**Voting Rights:**

The NBC CapS II (including the NBC CapS – Series 2) are non-voting except in certain limited circumstances. See “Description of the Trust Securities – Certain Provisions of the Trust Capital Securities as a Class - Voting Rights”.

**Automatic Exchange:**

Each NBC CapS II – Series 2 will be exchanged automatically, without the consent of the holder, for 40 Bank Preferred Shares Series 23 upon the occurrence of a Loss Absorption Event, being any one of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-Up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; (iv) the Board of

Directors advises the Superintendent in writing that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; or (v) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein. The Automatic Exchange shall occur as of 8:00 a.m. (Eastern time) on the date that a Loss Absorption Event occurs. Following the Automatic Exchange, holders of NBC CapS II – Series 2 will cease to have any claim or entitlement in relation to the NBC CapS II – Series 2 or the Trust Assets. If, for any reason, the Automatic Exchange does not result in the exchange of all NBC CapS II – Series 2 then outstanding for Bank Preferred Shares Series 23, the Trust will redeem each NBC CapS II – Series 2 not so exchanged for consideration consisting of 40 Bank Preferred Shares Series 23. **If the Automatic Exchange were to occur and Bank Preferred Shares Series 23 were issued in exchange for the NBC CapS II – Series 2, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the NBC CapS II – Series 2 would be lost. Accordingly, it is in the interests of the Bank to ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the Bank’s control.** See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange” and “Description of Bank Preferred Shares Series 23 - Description of Bank Preferred Shares Series 23 as a Series.”

The Bank Preferred Shares Series 23 will pay semi-annual, non-cumulative per share cash dividends, as and when declared by the Board of Directors, on the last day of June and December in each year (subject to adjustment on the first such payment date if the Bank Preferred Shares Series 23 have been issued and outstanding for less than six months), equal to \$0.75.

**No Redemption or Exchange at the Option of the Holder:**

The NBC CapS II – Series 2 are not redeemable or exchangeable for Bank Preferred Shares at the option of the holder.

**Trust Special Event Redemption Right:**

Upon the occurrence of a Tax Event or a Capital Disqualification Event, in each case prior to July 31, 2013, the NBC CapS II – Series 2 will be redeemable by the Trust at its option in whole (but not in part) without the consent of the holders thereof, upon at least 30 and not more than 90 days’ prior written notice by the Trustee and with Superintendent Approval for a cash amount per NBC CapS II – Series 2 equal to the Early Redemption Price, being the greater of: (i) the Redemption Price; and (ii) a price per NBC CapS II – Series 2 calculated to provide an annual yield thereon to June 30, 2020 equal to the Government of Canada Yield plus 0.88% determined on the Business Day immediately preceding the date on which the Trust has given notice of the redemption of the NBC CapS II – Series 2 as a consequence of the exercise of the Trust Special Event Redemption Right plus the Unpaid Indicated Distribution (the “NBC CapS II – Series 2 Canada Yield Price”). For such purpose, the Government of Canada Yield means, on any date, the average of the yields determined by any two registered Canadian investment dealers selected by the Bank as being the annual yield to maturity on such date, compounded semi-annually, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on the date of redemption with a maturity date of June 30, 2020. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Trust Special Event Redemption Right”.

**Trust Redemption Right:**

On July 31, 2013 and on any Distribution Date thereafter, the Trust may, at its option, redeem the NBC CapS II – Series 2 in whole (but not in part) without the consent of the holders thereof, upon at least 30 and not more than 60 days’ prior written notice and with Superintendent Approval, for a cash amount per NBC CapS II – Series 2 equal to: (i) the Early Redemption Price if the redemption occurs prior to June 30, 2020; or (ii) the Redemption Price if the redemption occurs on or after June 30, 2020. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Trust

Redemption Right”.

**Purchase for Cancellation:**

On or after the date that is five years after the Closing Date, the NBC CapS II – Series 2 may be purchased, in whole or in part, by the Trust, with Superintendent Approval, in the open market or by tender or private contract at any price. NBC CapS II – Series 2 purchased by the Trust shall be cancelled and shall not be reissued.

**Rights on Termination of the Trust:**

As long as any NBC CapS II – Series 2 are outstanding, the Trust may only be terminated with the approval of the Bank, as holder of the Special Trust Securities, and with Superintendent Approval: (i) upon the occurrence of a Special Event prior to July 31, 2013; or (ii) for any reason on July 31, 2013 or any Distribution Date thereafter. The Declaration of Trust provides that holders of NBC CapS II – Series 2 are not entitled to initiate proceedings for the termination of the Trust.

Pursuant to the Bank Share Exchange Agreement to be entered into on the closing of the Offering, the Bank will covenant for the benefit of holders of NBC CapS II – Series 2 that, as long as any NBC CapS II – Series 2 are outstanding, the Bank will not approve the termination of the Trust unless the Trust has sufficient funds to pay the Early Redemption Price (if the termination is as a result of action taken by the Bank prior to June 30, 2020) or the Redemption Price (in all other cases). Holders of NBC CapS II of any series and the Bank, as sole holder of the Special Trust Securities, will rank *pari passu* in the distribution of the property of the Trust in the event of a termination of the Trust, after the discharge of the claims of creditors, if any. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Rights on Termination of the Trust”.

**Additional Bank Covenants:**

In addition to the Dividend Stopper Undertakings, the Bank will covenant for the benefit of the holders of NBC CapS II – Series 2, pursuant to the Bank Share Exchange Agreement, that:

- (i) all of the outstanding Special Trust Securities will be held at all times by the Bank; and
- (ii) as long as any NBC CapS II – Series 2 are outstanding, the Bank will not take any action to cause the termination of the Trust except as set forth under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Rights on Termination of the Trust” and with Superintendent Approval.

The Bank will be entitled to assign or otherwise transfer its obligations under the Bank Share Exchange Agreement only in the event of a merger, consolidation, amalgamation, reorganization or a sale of all or substantially all of the assets of the Bank.

**Book-Entry Only Form:**

The NBC CapS II – Series 2 will be issued under the book-entry only system operated by CDS Clearing and Depository Services Inc. or its nominees (“CDS”) and must be purchased or transferred through participants (collectively, “Participants”) in the depository service of CDS. Participants include securities brokers and dealers, banks and trust companies. Accordingly, physical certificates representing the NBC CapS II – Series 2 will not be available except in the limited circumstances described under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Book-Entry Only Form”.

**NBC CapS II – Series 1**

On January 22, 2008, the Trust issued 400,000 of the first series of NBC CapS II designated Trust Capital Securities - Series 1 (the “NBC CapS II – Series 1”) at a price of \$1,000 per NBC CapS II – Series 1 for total gross proceeds of \$400,000,000. Holders of NBC CapS II – Series 1 are entitled to receive an Indicated Distribution of \$36.175 per NBC CapS II – Series 1. NBC CapS II – Series 1 may be exchanged automatically under certain circumstances, for Bank Preferred Shares Series 19, paying a semi-annual non-cumulative cash dividend of \$0.6875 per share.

The NBC CapS II – Series 1 and the NBC CapS II – Series 2 rank *pari passu* on the distribution of the property of the Trust in the event of a termination of the Trust (together with the Bank as sole holder of the Special Trust Securities) and rank *pari passu* in respect of the Indicated Distributions payable on each series of NBC CapS II.

**Special Trust Securities:**

The Special Trust Securities allow the Bank to vote with respect to certain matters regarding the Trust and to receive the Net Distributable Funds, if any, of the Trust after payment of the Indicated Distribution on the NBC CapS II.

## THE TRUST

### General

The Trust is a closed-end trust established under the laws of the Province of Ontario by the Trustee pursuant to a Declaration of Trust. The Offering will provide investors with the opportunity to invest in NBC CapS II – Series 2 and will provide the Bank with a cost-effective means of raising capital for Canadian bank regulatory purposes. All of the Special Trust Securities will be owned by the Bank. See “Description of the Trust Securities - The Special Trust Securities”.

### Activities of the Trust

The Trust’s objective is to acquire and hold the Trust Assets that will generate net income for distribution to holders of Trust Securities. The Trust Assets consist primarily of (i) Mortgage Co-Ownership Interests (as defined herein) in one or more pools of Residential Mortgages (as defined herein) originated by the Bank or its affiliates; or (ii) Mortgage-Backed Securities (as defined herein). The Bank has entered into a Mortgage Sales, Pooling and Servicing Agreement and has entered into and will enter into Purchase Agreements which, together, provide and will provide for the transfer of Mortgage Co-Ownership Interests. The Trust has acquired and intends to continue to acquire the Trust Assets primarily from the Bank or its affiliates. The Trust Assets are serviced directly or indirectly by the Bank or its affiliates. The Trust will, from time to time, purchase additional Eligible Trust Assets (as defined herein) out of proceeds received in connection with the Trust Assets. The price of any Trust Asset purchased by the Trust is intended to be equal to the fair market value thereof.

### Capitalization

Immediately after the issuance by the Trust of the NBC CapS II – Series 2 pursuant to the Offering and the purchase by the Trust of Trust Assets, the Trust will have approximately \$1,012,500,000 in Trust Assets, \$750,000,000 of capital attributable to the NBC CapS II, \$262,500,000 of capital attributable to the Special Trust Securities and \$7,362,000 of funds borrowed under the Credit Facility, less \$7,362,000 of issue-related costs relating to the NBC CapS II. See “Capitalization of the Trust” and “Risk Factors”.

### Conflicts of Interest

Due to the nature of the Trust’s relationship with the Bank and its affiliates, it is possible that conflicts of interest may arise with respect to certain transactions between the parties. It is intended that any agreements or transactions between the Trust, on the one hand, and the Bank or its affiliates, on the other hand, will be fair to all parties and consistent with market terms for such types of transactions. However, there can be no assurance that any such agreement or transaction will be on terms as favourable to the Trust as would have been obtained from unaffiliated third parties. See “Activities of the Trust - Conflict of Interest Policies” and “Risk Factors – Dependence upon the Bank and its Affiliates”.

### Servicing of Trust Assets

The Trust Assets will be serviced directly or indirectly by the Bank or its affiliates. The Trust Assets will generally be acquired by the Trust on a fully-serviced basis. See “Activities of the Trust - Description of Eligible Trust Assets - General”.

### Administration and Advisory Agreement

The Trustee has entered into the Administration and Advisory Agreement pursuant to which the Trustee retains the Bank, as Administrative Agent, to perform certain of its duties in relation to the Trust. The Bank, in its role as advisor and administrative agent under the Administration and Advisory Agreement, provides the Trust advice and counsel with respect to the management of the Trust Assets and administers the day-to-day operations of the Trust and provides other advice or counsel as may be requested from time to time by the Trust. The Administrative Agent may from time to time delegate or sub-contract all or a portion of its obligations under the Administration and Advisory Agreement to one or more of its affiliates. The Bank and certain of its affiliates and their respective personnel have substantial experience in mortgage finance and in the administration of Trust Assets. See “Activities of the Trust - The Administrative Agent”.

**Liquidity**

The Trust will only borrow funds from the Bank pursuant to the Credit Facility and will use borrowed funds only for the purposes of ensuring liquidity in the normal course of the Trust's activities and to facilitate the payment by the Trust of the expenses of the Offering. The Bank will charge interest rates on any borrowings by the Trust that are not higher than prevailing market rates. See "Activities of the Trust - Liquidity".

**RISK FACTORS**

The purchase of NBC CapS II – Series 2 is subject to certain risks, including those described below and prospective investors should carefully consider the Risk Factors and other information in this prospectus before purchasing the NBC CapS II – Series 2. See "Risk Factors".

## GLOSSARY

In this prospectus, unless the context otherwise requires:

**Accumulated Unpaid Indicated Distribution** means, at any time, an amount per NBC CapS II – Series 2 equal to the Indicated Distribution payable by the Trust thereon in respect of all previous Regular Distribution Dates remaining unpaid by the Trust.

**Administration and Advisory Agreement** means the agreement between the Trust and the Bank pursuant to which the Bank serves as Administrative Agent to the Trust.

**Administrative Action** means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of an intention to adopt such procedures or regulations) by any legislative body, court, governmental authority or regulatory body having appropriate jurisdiction.

**Administrative Agent** means the Bank in its capacity as advisor and administrative agent to the Trust pursuant to the Administration and Advisory Agreement or any successor to the Bank in such capacity.

**Automatic Exchange** means the automatic exchange of each NBC CapS II for Bank Preferred Shares (40 Bank Preferred Shares Series 23 in the case of the NBC CapS II – Series 2) upon the occurrence of a Loss Absorption Event.

**Bank** means National Bank of Canada.

**Bank Act** means the *Bank Act* (Canada), as amended from time to time.

**Bank Common Shares** means the issued and outstanding common shares of the Bank.

**Bank Preferred Shares** means the First Preferred Shares of the Bank (including the Bank Preferred Shares Series 19 and Series 23).

**Bank Preferred Shares Series 19** means the non-cumulative First Preferred Shares Series 19 of the Bank.

**Bank Preferred Shares Series 23** means the non-cumulative First Preferred Shares Series 23 of the Bank.

**Bank Share Exchange Agreements** means the Bank Share Exchange Trust Agreements between the Bank, the Trust and the Exchange Trustee providing for, among other things, the Dividend Stopper Undertakings and other covenants of the Bank as well as the respective rights and obligations of the Bank, the Trust and the holders of the NBC CapS II with respect to the Subscription Right and with respect to the exchange of NBC CapS II for Bank Preferred Shares.

**Bankers' Acceptance Rate** means, for any Distribution Period, or other period, the average bid rate of interest (expressed as an annual percentage rate) rounded to the nearest one hundred-thousandth of one percent (with 0.000005 percent being rounded up) for Canadian dollar bankers' acceptances with maturities of six months which appears on the Reuters Screen CDOR Page as of 10:00 a.m. (Eastern Standard time) on the first Business Day of such period, provided that if such rate does not appear on the Reuters Screen CDOR Page on such day, the Bankers' Acceptance Rate for such period will be the average of the bid rates of interest (expressed and rounded as set forth above) for Canadian dollar bankers' acceptances with maturities of six months for same day settlement as quoted by such of the Schedule I Canadian chartered banks as may quote such a rate as of 10:00 a.m. (Eastern Standard time) on the first Business Day of such period.

**Board of Directors** means the board of directors of the Bank.

**Business Day** means a day on which the Bank is open for business in the City of Montréal, other than a Saturday, Sunday or any statutory holiday in Québec.

**Capital Disqualification Event** means a Tier 1 Capital Disqualification Event or a Total Capital Disqualification Event.

**Capital Guidelines** means the Canadian bank regulatory guidelines issued by the Superintendent or other governmental authority in Canada concerning the maintenance of adequate capital reserves by Canadian chartered banks, including the Bank, from time to time.

**CDS** means CDS Clearing and Depository Services Inc. and its nominees, or any successor thereto carrying on the business of a depository.

**CDS Procedures** mean the customary practices and procedures of CDS.

**Closing Date** means the date of closing of the Offering.

**CMHC** means Canada Mortgage and Housing Corporation.

**Co-Owner** means each person who acquires a co-ownership interest in the assets held by the Custodian.

**Co-Ownership Assets** means assets held by the Custodian from time to time on behalf of the Co-Owners.

**Credit Facility** means the credit facility provided by the Bank to the Trust, as amended from time to time.

**Current Unpaid Indicated Distribution** means, at any time, an amount per NBC CapS II equal to the unpaid Indicated Distribution payable by the Trust thereon, if any, in respect of the current Distribution Period which, in respect of any calculation to be made on a Distribution Date, shall mean the Distribution Period ending on the day preceding such Distribution Date.

**Custodian** means Natcan Trust Company as agent, nominee and bare trustee under the Mortgage Sales, Pooling and Servicing Agreement.

**DBRS** means DBRS Limited.

**Declaration of Trust** means the declaration of trust by the Trustee dated December 17, 2007 establishing the Trust and the rights, privileges, restrictions and conditions attached to the Trust Securities, as amended, supplemented and restated from time to time.

**Deferred Income Plans** mean RRSPs, RRIFs, DPSPs, RESPs, RDSPs and registered pension plans.

**Distribution Date** means the last day in June and December of each year commencing December 31, 2008, which will be either: (i) a Regular Distribution Date if the Bank declares Dividends in the Reference Dividend Declaration Month; or (ii) a Distribution Diversion Date if the Bank does not declare Dividends in the Reference Dividend Declaration Month.

**Distribution Diversion Date** means a Distribution Date, other than a Regular Distribution Date, on which the Indicated Distribution on the NBC CapS II is not payable by the Trust and, instead, the Bank as sole holder of the Special Trust Securities is entitled to receive the Net Distributable Funds of the Trust.

**Distribution Diversion Event** means the failure of the Bank to declare Dividends in a Reference Dividend Declaration Month, in which event the Distribution Date occurring on the day after the last day of the first Distribution Period commencing following such month shall be a Distribution Diversion Date.

**Distribution Period** means the periods from and including the Closing Date to but excluding December 31, 2008 in the case of NBC CapS II – Series 2 and thereafter from and including each Distribution Date to but excluding the next following Distribution Date.

**Dividend Declaration Months** means the months in which the Bank ordinarily declares Dividends from time to time before giving effect to any stoppage of the declaration of Dividends pursuant to the Dividend Stopper Undertakings.

**Dividend Declaration Resumption Month** means the month commencing immediately after the third Dividend Declaration Month following the Trust's failure to pay the Indicated Distribution in full on the NBC CapS II, being the month in which the Bank may resume declaring dividends on the Dividend Restricted Shares.

**Dividend Restricted Shares** means, collectively, any preferred shares of the Bank (including the Bank Preferred Shares), whether ranking junior to, on a parity with or in priority to the Bank Preferred Shares, and the Bank Common Shares, being the shares of the Bank that are subject to the Dividend Stopper Undertakings.

**Dividend Stopper Undertakings** means the undertakings of the Bank, for the benefit of the holders of NBC CapS II which are set forth (or will be set forth in the case of NBC CapS II – Series 2) in the Bank Share Exchange Agreements, to refrain from declaring dividends of any kind on the Dividend Restricted Shares until the Dividend Declaration Resumption Month if, on any Regular Distribution Date, the Trust fails to pay the Indicated Distribution in full on the NBC CapS II.

**Dividends** means the regular cash dividends declared by the Bank on the preferred shares of the Bank (including the Bank Preferred Shares), whether ranking junior to, on a parity with or in priority to the Bank Preferred Shares, or, if no such shares are then outstanding, on the Bank Common Shares, in accordance with the Bank's ordinary dividend practice in effect from time to time.

**DPSP** means a trust governed by a deferred profit sharing plan.

**Early Redemption Price** means a cash amount per NBC CapS II – Series 2 equal to the greater of: (i) the Redemption Price; and (ii) the NBC CapS II – Series 2 Canada Yield Price.

**Eligible Investments** means money and any debt obligation that is a qualified investment under the Tax Act for RRSPs, RRIFs, DPSPs, RESPs and RDSPs, except where the qualification of such property contains conditions regarding the annuitant, the beneficiary, the employer or the subscriber under the plan unless the Trust is satisfied that such conditions are satisfied.

**Eligible Trust Assets** means Residential Mortgages, Mortgage Co-Ownership Interests, Mortgage-Backed Securities, Eligible Investments and contractual rights of the Trust in respect of the activities and operations of the Trust.

**Exchange Trustee** means Computershare Trust Company of Canada, as trustee for the holders of NBC CapS II – Series 2 pursuant to the Bank Share Exchange Agreement.

**Extraordinary Resolution** means a resolution passed by the holders of NBC CapS II representing not less than 66 2/3% of the total number of outstanding NBC CapS II represented and voted at a meeting of holders of NBC CapS II at which a quorum is present, or a resolution in writing signed by holders of NBC CapS II representing not less than 66 2/3% of the outstanding NBC CapS II.

**Genworth Financial** means Genworth Financial Mortgage Insurance Company Canada (formerly GE Capital Mortgage Insurance Company (Canada)) and its successors.

**Government of Canada Yield** means, on any date, the average of the yields determined by any two registered Canadian investment dealers selected by the Bank as being the annual yield to maturity on such date, compounded semi-annually, which a non-callable Government of Canada Bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on that date with a maturity date of June 30, 2020.

**Indicated Distribution** means the non-cumulative fixed cash distribution per NBC CapS II payable by the Trust on Regular Distribution Dates, which in the case of NBC CapS II – Series 2 shall be in the amount of: (i) in the case of any Regular Distribution Date on or before June 30, 2020, \$37.235 per NBC CapS II – Series 2; and (ii) in the case of any Regular Distribution Date after June 30, 2020, an amount per NBC CapS II – Series 2 determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate for the Distribution Period immediately preceding such Distribution Date plus 409 basis points, in the case of NBC CapS II – Series 2.

**Ineligible Person** means any person whose address is in or whom the Bank or its transfer agent has reason to believe is a resident of any jurisdiction outside of Canada to the extent that the issuance by the Bank to such person, pursuant to the Automatic Exchange, of Bank Preferred Shares Series 23 would require the Bank to take any action to comply with securities, banking or analogous laws of such jurisdiction.

**Loss Absorption Event** means an event giving rise to the Automatic Exchange, being the occurrence of any one of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-Up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is

granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; (iv) the Board of Directors advises the Superintendent in writing that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk based Total Capital Ratio of less than 8.0%; or (v) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or provide additional liquidity and the Bank elects to cause the Automatic Exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein.

**Moody's** means Moody's Investors Service, Inc.

**Mortgage-Backed Securities** means securities representing undivided co-ownership interests in a pool of Residential Mortgages.

**Mortgage Co-Ownership Interests** means undivided co-ownership interests in one or more pools of Residential Mortgages.

**Mortgage Sales, Pooling and Servicing Agreement** means the Mortgage Sales, Pooling and Servicing Agreement between the Bank as seller and initial servicer and the Custodian as agent, nominee and bare trustee for and on behalf of the seller, the Co-Owners and persons who from time to time are parties to Purchase Agreements providing for the transfer of and servicing of Mortgage Co-Ownership Interests, as amended, supplemented and restated from time to time.

**NBC CapS II** means the NBC CapS II – Series 1 and the NBC CapS II – Series 2.

**NBC CapS II – Series 1** means the \$400,000,000 Trust Capital Securities - Series 1 issued by the Trust on January 22, 2008.

**NBC CapS II – Series 2** means the Trust Capital Securities - Series 2 to be issued by the Trust to investors in Canada pursuant to the Offering.

**NBC CapS II – Series 2 Canada Yield Price** means a price per NBC CapS II – Series 2 calculated to provide an annual yield thereon to June 30, 2020, compounded semi-annually, equal to the Government of Canada Yield plus 0.88% determined on the Business Day immediately preceding the date on which the Trust has given notice of the redemption of the NBC CapS II – Series 2 (whether pursuant to the Trust Special Event Redemption Right or the Trust Redemption Right) or the Business Day immediately preceding the date of the termination of the Trust, as the case may be, plus the Unpaid Indicated Distribution.

**Net Distributable Funds** means, at any time, the sum of: (i) income of the Trust (including any net taxable capital gains) in accordance with the provisions of the Tax Act derived by the Trust; and (ii) amounts received by the Trust from the Bank that are designated by the Bank as such, in each case that have not previously been distributed to holders of NBC CapS II or the Bank as sole holder of the Special Trust Securities.

**New Bank Preferred Shares** means the Bank Preferred Shares of a new series that may be created by the Bank as contemplated by the Bank Preferred Shares Series 23.

**Offering** means the offering of NBC CapS II – Series 2 by the Trust pursuant to this prospectus.

**Participants** means the participants in the depository service of CDS.

**Privately Insured Residential Mortgage** means a first mortgage granted by an individual mortgagor on residential property situated in Canada that is insured by an insurance company, including a Genworth Financial-insured mortgage.

**Purchase Agreements** means one or more purchase agreements among the Bank, the Custodian and the Trust providing for the transfer to the Trust of Mortgage Co-Ownership Interests.

**Redemption Price** means, at any time in respect of each NBC CapS II, an amount equal to \$1,000 plus the Unpaid Indicated Distribution thereon, if any.

**Reference Dividend Declaration Month** means, in respect of any Distribution Date, the most recent Dividend Declaration Month occurring prior to the commencement of the Distribution Period ended on the day preceding such Distribution Date, such months currently being June and December under existing Bank Dividend declaration practice and, in respect of the December 31, 2008 Distribution Date in the case of NBC CapS II – Series 2, the month of June 2008.

**Regular Distribution Date** means a Distribution Date on which the Indicated Distribution on the NBC CapS II is payable by the Trust, by virtue of the Bank having declared Dividends in the Reference Dividend Declaration Month.

**Residential Mortgages** means: (i) CMHC-insured first mortgages granted by mortgagors who are individuals on residential property situated in Canada such as single family dwellings, semi-detached dwelling units, duplexes, townhouses, condominium units or multiple-unit family dwellings; and (ii) such other first mortgages granted by mortgagors who are individuals on residential property situated in Canada (or interests therein whether on a pooled basis or otherwise) including, without limitation, Privately Insured Residential Mortgages and other first mortgages granted by mortgagors who are individuals on residential property situated in Canada or lines of credit granted to individuals secured by first mortgages on residential property situated in Canada so long as, in all cases, they are Eligible Investments.

**RDSP** means a trust governed by a registered disability savings plan.

**RESP** means a trust governed by a registered education savings plan.

**RRIF** means a trust governed by a registered retirement income fund.

**RRSP** means a trust governed by a registered retirement savings plan.

**S&P** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies (Canada) Corporation, Inc.

**Servicer** means the Bank in its capacity as servicer of the Trust Assets pursuant to the terms of the Mortgage Sales, Pooling and Servicing Agreement.

**Significant Shareholder** means any person who beneficially owns directly or indirectly through entities controlled by such person or persons associated with or acting jointly or in concert with such person, shares of any class of the Bank in excess of 10% of the total number of outstanding shares of that class.

**Special Event** means a Tax Event or a Capital Disqualification Event, as the case may be.

**Special Trust Securities** mean the Special Trust Securities issued or to be issued by the Trust to the Bank.

**Subscription Agreement** means an agreement between the Bank and the Trust pursuant to which the Bank subscribes for Special Trust Securities in connection with an offering of NBC CapS II.

**Subscription Right** means the right of the Trust to require the Bank to issue to it upon receipt of appropriate consideration therefor, a sufficient number of Bank Preferred Shares (40 Bank Preferred Shares Series 23 in the case of NBC CapS II – Series 2) to enable the Trust to redeem the NBC CapS II, if any, remaining outstanding following the Automatic Exchange.

**Superintendent** means the Superintendent of Financial Institutions (Canada).

**Superintendent Approval** means the prior approval of the Superintendent in respect of an act or event which shall, for greater certainty, be required in the case of an act or event constituting or arising as a consequence of a Capital Disqualification Event.

**Tax Act** means the *Income Tax Act* (Canada), as amended from time to time.

**Tax Event** means the receipt by the Bank of an opinion of a nationally recognized law firm in Canada experienced in such matters (who may be counsel to the Bank or the Trust) to the effect that, as a result of: (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws, or any regulations thereunder, of Canada or any political subdivision or taxing authority thereof or therein, affecting taxation; (ii) any Administrative Action;

or (iii) any amendment to, clarification of, or change in, the official position or the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective or such pronouncement or decision is announced on or after the date of issue of the NBC CapS II, there is more than an insubstantial risk that: (x) the treatment of any of the Bank's or the Trust's items of income or expense (including the treatment by the Bank or the Trust of distributions made on the Trust Securities) as reflected in the tax returns filed (or to be filed) will not be respected by a taxing authority, which subjects the Bank or the Trust to more than a de minimus amount of additional taxes, duties or other governmental charges or civil liabilities; or (y) the Bank or the Trust is, or will be, subject to more than a de minimus amount of taxes, duties or other governmental charges or civil liabilities.

**Tax Proposals** means all specific proposals to amend the Tax Act and the regulations thereto publicly announced by the Minister of Finance (Canada) prior to the date hereof.

**Termination Distribution Ratio** means a fraction, the numerator of which is the value of the Trust Assets to be distributed to holders of Trust Securities in connection with a termination of the Trust and the denominator of which is an amount equal to the sum of: (i) the aggregate of the Early Redemption Price of all NBC CapS II then outstanding (if the termination is as a result of action taken by the Bank and occurs prior to a date specified with respect to each series) (June 30, 2020 in the case of NBC CapS II – Series 2) or the aggregate of the Redemption Price of all NBC CapS II then outstanding (in all other cases); and (ii) the total invested amount of the Bank in respect of the Special Trust Securities then outstanding.

**Tier 1 Capital Disqualification Event** means the determination by the Bank, after consultation with the Superintendent, that, as a result of a change after the date hereof in the Capital Guidelines, the NBC CapS II – Series 2 are no longer eligible to be included as risk-based Tier 1 Capital on a consolidated basis under the Capital Guidelines.

**Total Capital Disqualification Event** means the determination by the Bank, after consultation with the Superintendent, that, as a result of a change after the date hereof in the Capital Guidelines, the NBC CapS II are no longer eligible to be included as risk-based Total Capital on a consolidated basis under the Capital Guidelines.

**Trust** means NBC Asset Trust, the issuer of the Trust Securities.

**Trust Assets** means the Eligible Trust Assets held by the Trust from time to time.

**Trust Capital Securities** means the transferable trust units representing undivided beneficial ownership interests in the Trust Assets, including the NBC CapS II – Series 2.

**Trust Redemption Right** means the right of the Trust, at its option, to redeem all, but not less than all, of the NBC CapS II – Series 2 at a price per NBC CapS II – Series 2 equal to: (i) the Early Redemption Price, if the redemption occurs on July 31, 2013 or on any Distribution Date thereafter and prior to June 30, 2020; or (ii) the Redemption Price, if the redemption occurs on June 30, 2020 or on any Distribution Date thereafter subject, in each case, to Superintendent Approval.

**Trust Securities** means, collectively, the NBC CapS II and the Special Trust Securities.

**Trust Special Event Redemption Right** means the right of the Trust, at its option, to redeem all, but not less than all, of the NBC CapS II – Series 2 at a price per NBC CapS II – Series 2 equal to the Early Redemption Price upon the occurrence of a Special Event prior to July 31, 2013, subject to Superintendent Approval.

**Trustee** means Natcan Trust Company, trustee of the Trust.

**U.S. Securities Act** means the *United States Securities Act of 1933*, as amended.

**Underwriters** means, collectively, National Bank Financial Inc., RBC Dominion Securities Inc., Merrill Lynch Canada Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., Scotia Capital Inc., Laurentian Bank Securities Inc., Casgrain & Company Limited and Desjardins Securities Inc.

**Underwriting Agreement** means the agreement dated June 25, 2008 between the Trust, the Bank and the Underwriters.

**Unpaid Indicated Distribution** means, at any time, an amount per NBC CapS II equal to the sum of the Accumulated Unpaid Indicated Distribution and the Current Unpaid Indicated Distribution.

*Unless otherwise indicated, all dollar amounts in this prospectus are expressed in Canadian dollars.*

## THE TRUST

The Trust is a closed-end trust formed by the Trustee under the laws of Ontario pursuant to the Declaration of Trust. The Trust has been formed for the purposes of creating and selling the Trust Securities and acquiring the Trust Assets, which will generate net income for distribution to holders of Trust Securities, and providing the Bank with a cost-effective means of raising capital.

The Trust has and it is expected that it will continue to acquire the Trust Assets from the Bank or its affiliates. However, the Trust may also from time to time acquire Trust Assets from unrelated third parties. Pursuant to the Administration and Advisory Agreement, the Trustee has retained the Bank to perform certain of its duties with respect to the Trust, as Administrative Agent. As Administrative Agent, the Bank provides advice and counsel to the Trust as set forth under “Activities of the Trust - The Administrative Agent”. The Bank services the Trust Assets in its role as Servicer under the Mortgage Sales, Pooling and Servicing Agreement. Immediately following the Offering, the Trust will have outstanding 400,000 NBC CapS II – Series 1 and 350,000 NBC CapS II – Series 2 and the Special Trust Securities. Pursuant to the Bank Share Exchange Agreement, the Bank will covenant for the benefit of holders of NBC CapS II – Series 2 that, for so long as any NBC CapS II – Series 2 are outstanding, the Bank will maintain ownership of 100% of the Special Trust Securities. For a further description of the operations of the Trust, see “Activities of the Trust”.

The head and registered office of the Trust is located at the National Bank Tower, 600 de la Gauchetière Street West, 4<sup>th</sup> Floor, Montréal, Québec, H3B 4L2. The Trustee is a wholly-owned subsidiary of the Bank.

The Trust is not a trust company and does not carry on business as a trust company and, accordingly, the Trust is not registered under the trust company legislation of any jurisdiction. Trust Securities are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation.

### **Exemptions from Certain Continuous Disclosure Requirements**

The Trust is a reporting issuer in each of the provinces of Canada where such concept exists. The Trust has received from the securities regulatory authorities in these provinces (the “Commissions”) exemptions from certain continuous disclosure requirements prescribed by provincial securities legislation for reporting issuers.

The exemptions are conditional upon holders of NBC CapS II receiving the Bank’s interim and annual audited consolidated financial statements and annual reports and the Bank continuing to file with the Commissions its interim and annual audited consolidated financial statements, proxy solicitation material in connection with any meetings of the Bank’s security holders and, where applicable, annual reports. Provided such conditions are met, the Trust is not required to file with the Commissions interim unaudited and annual audited consolidated financial statements, including management’s discussion and analysis of the financial condition and results of operation of the Trust, interim and annual certificates signed by the Chief Financial Officer and the Chief Executive Officer, information circulars or any annual filing in lieu thereof (collectively, an “annual filing”), annual information forms, and where applicable, annual reports, and holders of NBC CapS II will not receive such documents. The Trust remains subject to the requirement to file material change reports in the event of any material change in the affairs of the Trust.

This exemptive relief was granted based upon the following terms and conditions of the NBC CapS II and for the following reasons. The operating activity of the Trust consists of acquiring and holding Trust Assets for the purpose of generating income for distribution to holders of NBC CapS II (and Special Trust Securities). Accordingly, the information relating to the financial condition and operations of a reporting issuer that is contained in an annual information form and an annual filing would not, in respect of the Trust, be meaningful to holders of NBC CapS II. The payment of the Indicated Distribution on NBC CapS II is dependent on the payment of Dividends by the Bank because the Indicated Distribution will not be payable if the Bank fails to declare Dividends in the Reference Dividend Declaration Month (see “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Indicated Distribution”). Furthermore, in certain circumstances including at a time when the Bank’s financial condition is deteriorating or proceedings for the winding-up of the Bank have been commenced (see “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange”), the NBC CapS II will be automatically exchanged for Bank Preferred Shares. As a result of the foregoing, details of the Bank’s financial condition (as opposed to that of the Trust) will be of interest to holders of NBC CapS II.

## THE BANK

### General

The Bank, a chartered bank subject to the provisions of the Bank Act, was formed through a series of amalgamations and its roots date back to 1859 with the founding of Banque Nationale in Québec City. The Bank's head office is located at the National Bank Tower, 600 de La Gauchetière Street West, 4<sup>th</sup> Floor, Montréal, Québec H3B 4L2.

### Subsidiaries

A list of the principal subsidiaries directly or indirectly owned or controlled by the Bank as at October 31, 2007 is included in the Bank's Annual Report for the year ended October 31, 2007.

### Business of the Bank

The Bank maintains offices and provides services in each of the Canadian provinces. It offers a full range of financial services to individuals, commercial enterprises, financial institutions and governments both in Canada and abroad.

Additional information with respect to the Bank's business is included in the Bank's Annual Report for the year ended October 31, 2007.

Certain other information regarding the Bank is incorporated by reference into this Prospectus. See "Documents Incorporated by Reference".

### Limitations Affecting Holders of Bank Shares

The Bank Act contains restrictions on the issue, transfer, acquisition, beneficial ownership and voting of all shares of a chartered bank. The following is a summary of such restrictions. Subject to certain exceptions contained in the Bank Act, no person shall be a major shareholder of a bank if the bank has equity of \$8 billion or more. While the equity of the Bank is less than \$8 billion and the Bank Act would otherwise permit a person to own up to 65% of any class of shares of the Bank, the Bank is deemed to be a bank to which the ownership restrictions for banks with equity of \$8 billion or more apply until the Minister of Finance (Canada) specifies, on application by the Bank, that these restrictions no longer apply to the Bank.

A person is a major shareholder of a bank where: (i) the aggregate of shares of any class of voting shares owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 20% of that class of voting shares; or (ii) the aggregate of shares of any class of non-voting shares beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 30% of that class of non-voting shares. No person, or persons acting jointly or in concert, shall have a significant interest in any class of shares of a bank, including the Bank, unless the person first receives the approval of the Minister of Finance (Canada). For purposes of the Bank Act, a person has a significant interest in a class of shares of a bank where the aggregate of any shares of the class beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares of such bank.

Purchasers of NBC CapS II – Series 2 (and Participants) may be required to furnish declarations relating to ownership (and ownership by clients of such Participants) in a form prescribed by the Bank. The Bank may not register a transfer or issue shares to a person who has failed to obtain any requisite approval of the Minister of Finance as described above and such person is prohibited from exercising any voting rights attaching to such shares of the Bank.

The Bank Act also prohibits the registration of a transfer or issue of any shares of the Bank to Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency of any of them.

The Bank Act prohibits any person from exercising voting rights attached to shares of the Bank beneficially owned by Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or by the government of a foreign country, or any political subdivision, agent or agency of any of them.

Under the Bank Act, the Bank cannot redeem or purchase any of its shares, including the Bank Preferred Shares Series 23, unless the consent of the Superintendent has been obtained. In addition, the Bank Act prohibits the payment to purchase or redeem any shares or the payment of a dividend if there are reasonable grounds for believing that the Bank is, or the payment would cause the Bank to be, in contravention of the Bank Act requirement to maintain, in relation to its operations, adequate capital and appropriate forms of liquidity and to comply with any regulations or directions of the Superintendent in relation thereto.

### Consolidated Capitalization of the Bank

The following table sets forth the consolidated capitalization of the Bank as at their respective dates. This table should be read in conjunction with the consolidated financial statements of the Bank and the management's discussion and analysis of the Bank, which are incorporated by reference in the prospectus:

	April 30, 2008 <sup>(1)(2)</sup>	October 31, 2007
	(millions of \$)	
Subordinated debentures .....	\$ 2,183	\$ 1,605
Innovative Instruments <sup>(3)</sup> .....	\$ 927	\$ 509
<b>Shareholders' equity</b>		
Preferred shares .....	\$ 774	\$ 400
Common shares .....	\$ 1,599	\$ 1,575
Contributed Surplus .....	\$ 34	\$ 32
Retained Earnings .....	\$ 2,998	\$ 2,793
Accumulated other comprehensive income (loss), net of income taxes .....	\$ (78)	\$ (163)
Total shareholders' equity .....	<u>\$ 5,327</u>	<u>\$ 4,637</u>
<b>Total Capitalization</b> .....	<u>\$ 8,437</u>	<u>\$ 6,751</u>

#### Notes:

- (1) Adjusted to give effect to the receipt of gross proceeds from the sale on June 17, 2008 of Non-cumulative 5-Year Rate Reset First Preferred Shares Series 21 ("Preferred Shares Series 21") (including the proceeds from the sale of Preferred Shares Series 21 pursuant to the over-allotment option granted to the underwriters in connection with the offering of such shares).
- (2) Adjusted to give effect to the receipt of gross proceeds from the issue of Series 6 Medium Term Notes on May 1, 2008.
- (3) Represents \$225 million of NBC CapS – Series 1 issued by NBC Capital Trust, US\$300 million of preferred shares issued by NB Capital Corporation and \$400 million of NBC CapS II – Series 1 issued by NBC Asset Trust; for more information on the classification of the innovative capital instruments, refer to notes 12 and 16 of the audited consolidated financial statements of the Bank for the year ended October 31, 2007 and to note 12 of the interim consolidated financial statements of the Bank for the second quarter ended April 30, 2008.

### Capital Adequacy Requirements

The Bank Act requires the Bank to maintain adequate capital in relation to its operations. The Superintendent has established risk-based capital targets for Canadian chartered banks of 7% (Tier 1 Capital) and 10% (Total Capital). The Superintendent has issued guidelines concerning the maintenance of adequate capital (the "Capital Guidelines") and has statutory authority pursuant to subsection 485(3) of the Bank Act to direct the Bank to increase its capital even if the Bank is in compliance with the Capital Guidelines. The Bank has no reason to believe that the Superintendent intends to direct the Bank to increase its capital. Pursuant to the Capital Guidelines, requirements are applied to the Bank on a consolidated basis including all subsidiaries except insurance subsidiaries or other regulated financial institutions whose leverage is inappropriate for a deposit taking institution and which, because of their size, would have a material impact on the leverage of the consolidated entity.

The following table sets forth the risk-based Tier 1 Capital ratios and risk-based Total Capital ratios of the Bank as at the dates indicated:

	<b>Risk-Based Tier 1 Capital Ratio</b>	<b>Risk-Based Total Capital Ratio</b>
April 30, 2008.....	9.2% <sup>(1) (2)</sup>	13.3% <sup>(1) (2)</sup>
October 31, 2007 .....	9.0%	12.4%
October 31, 2006 .....	9.9%	14.0%
October 31, 2005 .....	9.6%	12.8%
October 31, 2004 .....	9.6%	13.0%
October 31, 2003 .....	9.6%	13.4%
October 31, 2002 .....	9.6%	13.6%

Notes:

- (1) Adjusted to give effect to the receipt of gross proceeds from the issue of Series 6 Medium Term Notes on May 1, 2008.
- (2) According to the new rules of the Bank for International Settlements – Basel II.

The Offering will provide the Bank with a cost-effective means of raising Tier 1 Capital for Canadian bank regulatory purposes (assuming that the Superintendent approves the inclusion of the NBC CapS II – Series 2 as Tier 1 capital of the Bank). After giving effect to the proceeds of this Offering and the exclusion of the US\$300 million 8.35% Non-Cumulative Exchangeable Preferred Stock, Series A issued by NB Capital Corporation from the Bank’s regulatory capital upon the completion of the Offering, the risk-based Tier 1 Capital ratio and risk-based Total Capital ratio levels of the Bank as at April 30, 2008, adjusted for such event, would have been 9.2% and 13.4%, respectively.

## RECENT DEVELOPMENTS

The Pan-Canadian Investors Committee for Third-Party Structured ABCP (the “Committee”) announced on June 5, 2008 that the Ontario Superior Court of Justice (the “Superior Court”) has sanctioned the Committee’s plan (the “Plan”) to restructure 20 of the trusts covered by last summer’s Montreal Accord, affecting \$32 billion of notes. The Court accepted a proposed amendment to the Plan that would allow certain noteholders, under specified conditions, to pursue claims of fraud against ABCP dealers.

The Committee announced on June 18, 2008 that proceedings have been taken by a number of corporate noteholders in the Ontario Court of Appeal (the “Court of Appeal”) seeking to challenge the Sanction Order rendered by the Superior Court on June 5, 2008. The Court of Appeal will hear the matter on June 25 and June 26, 2008. The Committee has indicated that it will ask the Court of Appeal to dismiss the proceedings and to leave in place the Sanction Order.

See “Caution Regarding Forward-Looking Statements” and “Risk Factors”.

## ACTIVITIES OF THE TRUST

### General and Capitalization

The Trust’s objective is to acquire and hold Trust Assets that will generate income for distribution to holders of Trust Securities. Immediately after the issuance by the Trust of the NBC CapS II – Series 2 pursuant to the Offering, the subscription by the Bank for additional Special Trust Securities and the purchase by the Trust of additional Trust Assets, the Trust will have approximately \$1,012,500,000 in Trust Assets, \$750,000,000 of capital attributable to the NBC CapS II, \$262,500,000 of capital attributable to the Special Trust Securities and \$7,362,000 of funds borrowed under the Credit Facility, less \$7,362,000 of issue related costs relating to the NBC CapS II. See “Capitalization of the Trust”.

### Description of Eligible Trust Assets

#### *General*

The Trust Assets consist of Residential Mortgages, Mortgage Co-Ownership Interests, Mortgage-Backed Securities, Eligible Investments and contractual rights in respect of the activities and operations of the Trust (the “Eligible Trust Assets”). On the Closing Date, the Trust Assets will consist primarily of Mortgage Co-Ownership Interests or Mortgage-

Backed Securities. The Trust has to date and intends to continue to acquire the Trust Assets primarily from the Bank or its affiliates and the assets so acquired are and will be serviced directly or indirectly by the Bank or its affiliates. The price of any Trust Asset purchased by the Trust has been and is intended to continue to be equal to the fair market value of such Trust Asset. The net income and gains received by the Trust from the Trust Assets will be distributed by way of payment of the aggregate Indicated Distribution on the NBC CapS II on Regular Distribution Dates. Any balance will be distributed to the Bank as holder of the Special Trust Securities. Substantially all of the amounts received in respect of the principal amount of Trust Assets will be reinvested in additional Eligible Trust Assets. There can be no assurance that the net income and gains derived from the Trust Assets by the Trust, from time to time, will be sufficient to satisfy the Indicated Distribution in full on the NBC CapS II on any Regular Distribution Date. However, it is in the interest of the Bank to ensure, to the extent within its control, that the Trust complies with its obligation to pay the Indicated Distribution on the NBC CapS II on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Bank Dividend Stopper Undertakings” and “Risk Factors”.

As contemplated by the Mortgage Sales, Pooling and Servicing Agreement, the Trust, the Bank and the Custodian will, on the Closing Date, enter into the Purchase Agreements in respect of the Trust Assets which will provide, among other things, for: (i) the sale and conveyance to the Trust of a Mortgage Co-Ownership Interest in specified Residential Mortgages to be held by the Custodian on behalf of the Bank and the Co-Owners, as undivided co-owners, and (ii) the principal terms and attributes of such Mortgage Co-Ownership Interest, including the right of the Trust to participate as an undivided co-owner in the income and gains derived therefrom and to receive its proportionate share of principal collections therefrom. The Residential Mortgages forming part of the Co-Ownership Assets will remain registered in the name of the Bank unless the Bank is replaced as Servicer.

### ***Residential Mortgages***

“Residential Mortgages” mean CMHC-insured first mortgages granted by individual mortgagors on residential property situated in Canada such as single family dwellings, semi-detached dwelling units, duplexes, townhouses, condominium units or multiple-unit family dwellings and such other first mortgages on residential property situated in Canada (or interests therein whether on a pooled basis or otherwise) including, without limitation, Privately Insured Residential Mortgages and other first mortgages granted by individual mortgagors on residential property situated in Canada or lines of credit granted to individuals secured by first mortgages on residential property situated in Canada as long as, in all cases, they are Eligible Investments. CMHC-insured mortgages are mortgages securing loans made by an approved lender in respect of which the principal amount is insured by CMHC as agent of the Government of Canada. Privately Insured Residential Mortgages are first mortgages on residential property situated in Canada that are insured by an insurance company, including a Genworth Financial-insured mortgage. The insurable amount of these mortgages is determined by CMHC or the insurance company, as the case may be, and, under current regulations, the loans may be up to 95% of the lesser of the purchase price and the appraised value. These loans are generally drawn for a term of one to five years and have an amortization period which is generally 25 years or less.

### ***Mortgage Co-Ownership Interests***

Mortgage Co-Ownership Interests are undivided co-ownership interests in one or more pools of Residential Mortgages.

### ***Mortgage-Backed Securities***

“Mortgage-Backed Securities” mean securities representing undivided interests in a pool of Residential Mortgages. The Trust Assets underlying such Mortgage-Backed Securities will be secured by single-family residential properties located throughout Canada. The Trust will acquire only investment-grade Mortgage-Backed Securities. The Trust will not acquire any interest-only and principal-only Mortgage-Backed Securities.

### ***Eligible Investments***

To the extent that the proceeds of the Trust Assets are not invested in Residential Mortgages, Mortgage Co-Ownership Interests or Mortgage-Backed Securities, the Trust will invest any remaining proceeds in other “Eligible Investments”, which is money and any debt obligations that are qualified investments under the Tax Act for RRSPs, RRIFs, DPSPs, RESPs and RDSPs, except where the qualification of such property contains conditions regarding the annuitant, the beneficiary, the employer or the subscriber under the plan, unless the Trust is satisfied such conditions are satisfied.

## Liquidity

The Trust will only borrow funds from the Bank pursuant to the Credit Facility extended by the Bank to the Trust and will use borrowed funds only for the purposes of ensuring liquidity in the normal course of the Trust's activities and to facilitate the payment by the Trust of the expenses of the Offering. The Bank will charge interest rates on any borrowings by the Trust that are not higher than prevailing market rates.

## The Administrative Agent

The Trustee has entered into an Administration and Advisory Agreement with the Bank, as Administrative Agent, pursuant to which the Trustee has retained the Bank to perform certain of its obligations in relation to the administration of the Trust. The Bank and its affiliates and their respective personnel have substantial experience in mortgage finance and in the administration of assets such as the Trust Assets.

The Administrative Agent, at the request of the Trustee, provides advice and counsel with respect to the acquisition, disposition and origination of Trust Assets and such other matters as may be requested by the Trustee from time to time. The Administrative Agent may, from time to time, delegate or sub-contract all or a portion of its obligations under the Administration and Advisory Agreement to one or more of its qualified affiliates. The Administrative Agent will not, in connection with the delegation or sub-contracting of any of such obligations, be discharged or relieved in any respect from its obligations under the Administration and Advisory Agreement. The Administrative Agent is entitled to receive an annual administration fee consistent with market terms and conditions.

As a result of the relationship between the Bank and the Trust, certain conflicts of interest may arise. See "Risk Factors - Dependence Upon the Bank and its Affiliates".

## Conflict of Interest Policies

Due to the nature of the Trust's relationship with the Bank and its affiliates, it is possible that conflicts of interest will arise with respect to certain transactions including, without limitation, the Trust's acquisition of Trust Assets from, or disposition of Trust Assets to, the Bank or its affiliates. In addition, the entity acting as the Trustee and the Custodian is an indirect wholly-owned subsidiary of the Bank. It will be the Trust's policy that the terms of any financial dealings with the Bank or any of its affiliates will be consistent with those available from third parties.

Conflicts of interest between the Trust and the Bank or its affiliates may also arise in connection with making decisions that bear upon the credit arrangements that the Bank or one of its affiliates may have with a borrower or in connection with actions taken by the Bank as the holder of the Special Trust Securities. It is intended that any agreements and transactions between the Trust, on the one hand, and the Bank or its affiliates, on the other hand, including, without limitation, the Mortgage Sales, Pooling and Servicing Agreement and the Administration and Advisory Agreement, will be fair to all parties and consistent with market terms for such types of transactions. However, there can be no assurance that any such agreement or transaction will be on terms as favourable to the Trust as would have been obtained from unaffiliated third parties.

## CAPITALIZATION OF THE TRUST

The following table sets forth the capitalization of the Trust as of March 31, 2008 and as adjusted to reflect: (i) the closing of the Offering; and (ii) the use of the proceeds of the Offering as described under "Use of Proceeds".

	<b>Outstanding as at March 31, 2008 (000's)</b>	<b>Outstanding as at March 31, 2008 after giving effect to the Offering (000's)</b>
NBC CapS II – Series 1 .....	\$ 400,000	\$ 400,000
NBC CapS II – Series 2 .....	\$ 0	\$ 350,000
Special Trust Securities .....	\$ 140,000	\$ 262,500
Deficit .....	\$ (3,437)	\$ (7,362)
Trust Capital .....	<u>\$ 536,563</u>	<u>\$ 1,005,138</u>

## DESCRIPTION OF THE TRUST SECURITIES

### Certain Provisions of the Trust Capital Securities as a Class

#### *Priority*

NBC CapS II of each series rank on a parity with NBC CapS II of every other series with respect to the payment of Indicated Distributions and the distribution of property in the event of termination of the Trust.

#### *Redemption or Exchange at the Option of the Holder*

The NBC CapS II are not redeemable or exchangeable for Bank Preferred Shares at the option of the holder.

#### *Purchase for Cancellation*

On or after the date that is five years after the date of issuance, the NBC CapS II may be purchased, in whole or in part, by the Trust, with Superintendent Approval, in the open market or by tender or private contract at any price. NBC CapS II purchased by the Trust shall be cancelled and shall not be reissued.

#### *Voting Rights*

The NBC CapS II are non-voting, except in the limited circumstances set forth in the Declaration of Trust involving changes to the terms and conditions of the NBC CapS II. The Declaration of Trust provides that such terms and conditions may be changed if authorized by the holders of NBC CapS II by way of Extraordinary Resolution. Any such change must be approved by the Bank and, in addition, any such change that would affect the status of the NBC CapS II as capital of the Bank is subject to Superintendent Approval. The quorum at any such meeting shall be one or more registered holders of NBC CapS II present in person or represented by proxy and owning or representing not less than 25% of the aggregate number of NBC CapS II then outstanding, provided that if a quorum is not present and the meeting is adjourned, at the meeting following such adjournment those registered holders present in person or represented by proxy shall constitute a quorum notwithstanding that they may not represent not less than 25% of the aggregate number of NBC CapS II then outstanding. The Trustee may, without the consent of holders of NBC CapS II, execute instruments supplemental to the Declaration of Trust and any other relevant instruments for certain limited purposes, including curing ambiguities or defects and making any modification that, in the opinion of the Trustee, would not be prejudicial to the interest of holders of NBC CapS II and making such changes as may be required to conform with applicable regulatory requirements from time to time.

#### *Issue of Additional Trust Securities*

The Trust may, at any time and from time to time, issue additional Special Trust Securities or Trust Capital Securities of any series without the authorization of holders of NBC CapS II. In the event that the Trust issues additional series of Trust Capital Securities, the rights, privileges, restrictions and conditions attached to such additional series may vary materially from those of any other series of NBC CapS II. The right of the holders of any other series of NBC CapS II to receive the Indicated Distribution from the Net Distributable Funds of the Trust on any Regular Distribution Date and the right of the holder of any other series of NBC CapS II to receive property of the Trust on a termination of the Trust ranks *pari passu* with the rights of the holders of Trust Capital Securities of any other series.

### **The NBC CapS II – Series 2**

The following is a summary of the rights, privileges, restrictions and conditions attaching to the NBC CapS II – Series 2. This summary is qualified in its entirety by the provisions of the Declaration of Trust. For information concerning the Bank Preferred Shares Series 23 into which the NBC CapS II – Series 2 are, in certain circumstances, automatically exchanged as described below, see “Description of Bank Preferred Shares Series 23 - Description of Bank Preferred Shares Series 23 as a Series”. Holders of NBC CapS II – Series 2 shall have no recourse to the assets of the Trustee in connection with any payments in respect of the NBC CapS II – Series 2.

### ***Indicated Distribution***

The annual yield payable on the NBC CapS II – Series 2 will be 7.447% to June 30, 2020 and, thereafter, the sum of the Bankers' Acceptance Rate (reset semi-annually) plus 409 basis points, as more particularly set forth below.

Each NBC CapS II – Series 2 entitles the holder to receive an Indicated Distribution of \$37.235 on each Regular Distribution Date on or before June 30, 2020 representing a per annum yield of 7.447% of the initial issue price. For each Regular Distribution Date after June 30, 2020, the Indicated Distribution will be an amount determined by multiplying \$1,000 by one half of the sum of the Bankers' Acceptance Rate for the Distribution Period immediately preceding such Distribution Date plus 409 basis points, payable on the last day of June and December of each year commencing June 30, 2020.

The Indicated Distribution in respect of each series of NBC CapS II is payable by the Trust on the NBC CapS II on each Distribution Date that is a Regular Distribution Date. The determination of whether any Distribution Date is a Regular Distribution Date or a Distribution Diversion Date will depend on whether the Bank has declared Dividends in the Reference Dividend Declaration Month. The Reference Dividend Declaration Month in respect of any Distribution Date will be that Dividend Declaration Month closest to but preceding the commencement of the Distribution Period terminating on the day preceding such Distribution Date. If the Bank declares Dividends in the Reference Dividend Declaration Month, the Distribution Date in question will be a Regular Distribution Date, with the result that the Trust will be obligated to pay the Indicated Distribution on the NBC CapS II to the holders thereof. If, on December 31 of any year, Net Distributable Funds of the Trust remain after payment of the Indicated Distribution on each series of NBC CapS II Regular Distribution Date during such year (if any), the Bank as the sole holder of the Special Trust Securities will be entitled to receive such remaining Net Distributable Funds on that date.

If the Bank fails to declare Dividends in such Reference Dividend Declaration Month, the Distribution Date in question will be a Distribution Diversion Date, with the result that the Trust will not be obligated to and will not pay the Indicated Distribution on the NBC CapS II and, instead, the Net Distributable Funds of the Trust will be payable to the Bank as holder of the Special Trust Securities. On any Regular Distribution Date, if the Net Distributable Funds of the Trust determined in respect of such Regular Distribution Date are insufficient to meet the obligations of the Trust to pay the aggregate Indicated Distribution on all series of NBC CapS II outstanding (the amount of such insufficiency, the "Indicated Distribution Deficit"), such Indicated Distribution Deficit shall constitute the Indicated Distribution for each series of NBC CapS II in respect of such Regular Distribution Date that remains unpaid and there will be added to the Accumulated Unpaid Indicated Distribution in respect of each series of NBC CapS II an amount determined by multiplying the Indicated Distribution Deficit by the percentage that the Indicated Distribution on the particular series of NBC CapS II represents of the aggregate Indicated Distribution on all series of NBC CapS II in respect of such Regular Distribution Date (the "Indicated Distribution Ratio") and the Trust will pay to holders of each series of NBC CapS II the amount of the Net Distributable Funds determined by multiplying the Net Distributable Funds by the Indicated Distribution Ratio in respect of the particular series of NBC CapS II. Holders of NBC CapS II shall have no right to sue the Trust to accelerate payment of the Indicated Distribution Deficit. Such amounts, which will form part of the Accumulated Unpaid Indicated Distribution, will be paid as described below, see "Bank Dividend Stopper Undertakings".

### ***Bank Dividend Stopper Undertakings***

In the event that the Trust fails, on any Regular Distribution Date, to pay the Indicated Distribution on the NBC CapS II – Series 2 in full, the Bank will, pursuant to a Bank Share Exchange Agreement, covenant for the benefit of holders of NBC CapS II – Series 2 that it will not declare dividends of any kind on the Dividend Restricted Shares until the Dividend Declaration Resumption Month, being the month that commences immediately after the third Dividend Declaration Month following the Trust's failure to pay the Indicated Distribution in full on the NBC CapS II – Series 2 unless the Trust first pays such Indicated Distribution (or the unpaid portion thereof) to holders of NBC CapS II – Series 2. The duration of the Bank Dividend Stopper Undertaking will vary depending upon the frequency of the Dividend Declaration Months. If, for example, the Bank changes its current practice of declaring dividends quarterly to declaring dividends monthly, the amount of time for which the Bank will be prohibited from declaring dividends on the Dividend Restricted Shares will be less than it would have been under current practice. Any Indicated Distribution (or portion thereof) that the Trust fails to pay to the holders of NBC CapS II – Series 2 on a Regular Distribution Date will form part of the Accumulated Unpaid Indicated Distribution and is payable on the occurrence of any event giving rise to the obligation of the Trust to pay or cause the payment of the Early Redemption Price or the Redemption Price, as the case may be, as part of such price. The first dividend in respect of the Dividend Restricted Shares declared by the Bank in or following the Dividend Declaration Resumption Month shall be paid by the Bank no earlier than would ordinarily be the case. **It is in the interest of the Bank to ensure, to the extent within its**

**control, that the Trust pay the Indicated Distribution on the NBC CapS II – Series 2 on each Regular Distribution Date so as to avoid triggering the Dividend Stopper Undertakings.**

Set forth below is a table indicating the relationship among the Reference Dividend Declaration Month, the Distribution Period, the Distribution Date and the Dividend Declaration Resumption Month for the NBC CapS II – Series 2:

<u>Reference Dividend Declaration Month<sup>(1)</sup></u>	<u>Commencement of Current Distribution Period<sup>(2)</sup></u>	<u>Distribution Date</u>	<u>Dividend Declaration Resumption Month<sup>(1),(3)</sup></u>
June 2008	Closing Date	December 31, 2008	September 2009
December 2008	December 31, 2008	June 30, 2009	March 2010
June 2009	June 30, 2009	December 31, 2009	September 2010

(1) The Reference Dividend Declaration Months and the Dividend Declaration Resumption Months are based on the Bank’s current practice with respect to declaring Dividends. If such practice were to change in the future in terms of the timing or frequency of the declaration of Dividends, the Reference Dividend Declaration Months and the Dividend Declaration Resumption Months referred to above may change. The Reference Dividend Declaration Month in respect of any Distribution Date would, in all events, continue to be the Dividend Declaration Month closest to but preceding the commencement of the Distribution Period ended on the day preceding such Distribution Date. Accordingly, whether the Bank declares Dividends in the months of March or September on its preferred shares or, if no such shares are then outstanding, on Bank Common Shares, will have no effect on whether the Indicated Distribution is payable on the NBC CapS II – Series 2 on any Distribution Date.

(2) Prior to the commencement of any Distribution Period, the question of whether the Distribution Date falling on the day after the last day of such Distribution Period will be a Regular Distribution Date or a Distribution Diversion Date, and the entitlement of holders of NBC CapS II – Series 2, will have been determined.

(3) The Dividend Declaration Resumption Month is only relevant if the Trust fails to pay the Indicated Distribution in full on the NBC CapS II – Series 2 on any Regular Distribution Date.

***Automatic Exchange***

Each NBC CapS II will be exchanged automatically (the “Automatic Exchange”), without the consent of the holder thereof, for Bank Preferred Shares (40 Bank Preferred Shares Series 23 in the case of the NBC CapS II – Series 2) upon the occurrence of a Loss Absorption Event, being any of the following: (i) an application for a winding-up order in respect of the Bank pursuant to the *Winding-Up and Restructuring Act* (Canada) is filed by the Attorney General of Canada or a winding-up order in respect of the Bank pursuant to that Act is granted by a court; (ii) the Superintendent advises the Bank in writing that the Superintendent has taken control of the Bank or its assets pursuant to the Bank Act; (iii) the Superintendent advises the Bank in writing that the Superintendent is of the opinion that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; (iv) the Board of Directors advises the Superintendent in writing that the Bank has a risk-based Tier 1 Capital Ratio of less than 5.0% or a risk-based Total Capital Ratio of less than 8.0%; or (v) the Superintendent directs the Bank pursuant to the Bank Act to increase its capital or to provide additional liquidity and the Bank elects to cause the exchange as a consequence of the issuance of such direction or the Bank does not comply with such direction to the satisfaction of the Superintendent within the time specified therein.

The Automatic Exchange shall occur as of 8:00 a.m. (Eastern time) on the date that a Loss Absorption Event occurs. As of the time of exchange, each holder of NBC CapS II shall be deemed to have exchanged and transferred to the Bank all of such holder’s right, title and interest in and to its NBC CapS II and shall cease to be a holder thereof and all rights of such holder as a securityholder of the Trust will cease and such person shall therefrom be deemed to be and shall be for all purposes a holder of Bank Preferred Shares. If, for any reason, the Automatic Exchange does not result in the exchange of all NBC CapS II then outstanding for Bank Preferred Shares, the Trust will redeem each NBC CapS II not so exchanged for consideration consisting of Bank Preferred Shares (40 Bank Preferred Shares Series 23 in the case of the NBC CapS II – Series 2). The Trust will, pursuant to the Subscription Right, have the right to require the Bank to issue to it, upon receipt of appropriate consideration therefor, a sufficient number of Bank Preferred Shares to enable the Trust to allow it to redeem the NBC CapS II, if any, remaining outstanding following the Automatic Exchange. As of the time of redemption, each holder of NBC CapS II so redeemed shall cease to be a holder thereof and all rights of such holder as a securityholder of the Trust will cease and such person shall therefrom be deemed to be and shall be for all purposes a holder of Bank Preferred Shares unless payment in the form of Bank Preferred Shares is not made. It shall not be necessary for the Trust, in such circumstances, to provide any prior written notice of redemption to holders of NBC CapS II. The Trust will acquire the Bank Preferred Shares required by it for purposes of such redemption, if any, from the Bank pursuant to the Subscription Right. The Bank will mail notice of the occurrence of the Loss Absorption Event to the Trustee within 10 days of such event.

Upon an Automatic Exchange or a redemption of the NBC CapS II for Bank Preferred Shares, the Bank reserves the right not to issue Bank Preferred Shares to Ineligible Persons or to persons who would as a result of the Automatic Exchange become Significant Shareholders. In such circumstances, all Bank Preferred Shares that would otherwise be issued to Ineligible Persons or Significant Shareholders, will be delivered to the Exchange Trustee, as their agent, and the Exchange Trustee will attempt to sell such Bank Preferred Shares (to parties other than the Bank and its affiliates) on behalf of such Ineligible Persons or Significant Shareholders. Such sales, if any, will be made at such times and at such prices as the Exchange Trustee may, in its sole discretion, determine. Neither the Bank, the Trustee or the Exchange Trustee will be subject to any liability for failure to sell such Bank Preferred Shares on behalf of such Ineligible Persons or Significant Shareholders or at any particular price on any particular day. The net proceeds received by the Exchange Trustee from the sale of any such Bank Preferred Shares will be divided among the Ineligible Persons or Significant Shareholders in proportion to the number of Bank Preferred Shares that would otherwise have been issuable to them, after deducting the costs of sale, net of any applicable withholding taxes. The Exchange Trustee will provide a cheque representing the aggregate net proceeds to CDS (if the NBC CapS II are then held in the book-entry only system) or to the Trustee (in all other cases) for distribution to such Ineligible Persons or Significant Shareholders in accordance with CDS Procedures or otherwise.

The Bank's by-laws currently provide that if it has declared but not paid, or set apart for payment, dividends on its then issued and outstanding Bank Preferred Shares, the approval of existing preferred shareholders is needed before a new series of preferred shares, including the Bank Preferred Shares Series 23, can be created or issued. As a regulated financial institution, the Bank must meet liquidity and capital adequacy requirements before it declares or pays dividends. Accordingly, the Bank only declares dividends if it satisfies these requirements and, as a result, the Bank's expectation is that it would be in a position to set aside funds for the payment of any dividends declared.

**If the Automatic Exchange were to occur and Bank Preferred Shares were issued in exchange for NBC CapS II as a result thereof, the cost-effective nature of the consolidated capital raised by the Bank through the issuance of the NBC CapS II would be lost. Accordingly, it is in the interests of the Bank to ensure that a Loss Absorption Event does not occur, although the events that could give rise to a Loss Absorption Event may be beyond the Bank's control.**

#### ***Trust Special Event Redemption Right***

Upon the occurrence of a Tax Event or a Capital Disqualification Event, in each case prior to July 31, 2013, the NBC CapS II – Series 2 will, upon at least 30 and not more than 90 days' prior written notice by the Trustee, with Superintendent Approval, be redeemable by the Trust at its option in whole (but not in part) and without the consent of the holders thereof, for a cash price per NBC CapS II – Series 2 equal to the Early Redemption Price, being the greater of: (i) the Redemption Price; and (ii) the NBC CapS II – Series 2 Canada Yield Price, being a price per NBC CapS II – Series 2 calculated to provide an annual yield thereon to June 30, 2020 equal to the Government of Canada Yield plus 0.88% determined on the Business Day immediately preceding the date on which the Trust has given notice of the Redemption of the NBC CapS II – Series 2 as a consequence of the exercise of the Trust Special Event Redemption Right plus the Unpaid Indicated Distribution. A Tax Event can occur where there is more than an insubstantial risk that, as a result of a change in law or certain other circumstances, the Bank becomes subject to more than a de minimus amount of taxes, duties or other governmental charges or civil liabilities, even if such change is not related to the Trust.

#### ***Trust Redemption Right***

On July 31, 2013 and on any Distribution Date thereafter, the Trust may, at its option, redeem the NBC CapS II – Series 2 in whole (but not in part) and without the consent of the holders thereof, upon at least 30 and not more than 60 days' prior written notice and with Superintendent Approval, for a cash amount per NBC CapS II – Series 2 equal to: (i) the Early Redemption Price if the redemption occurs prior to June 30, 2020; or (ii) the Redemption Price if the redemption occurs on or after June 30, 2020.

#### ***Purchase for Cancellation***

On or after the date that is five years after the Closing Date, the NBC CapS II – Series 2 may be purchased, in whole or in part, by the Trust, with Superintendent Approval, in the open market or by tender or private contract at any price. NBC CapS II – Series 2 purchased by the Trust shall be cancelled and shall not be reissued.

#### ***Rights on Termination of the Trust***

As long as any NBC CapS II are outstanding, the Trust may only be terminated with the approval of the Bank, as sole holder of the Special Trust Securities, and with Superintendent Approval: (i) upon the occurrence of a Special Event

prior to July 31, 2013; or (ii) for any reason on July 31, 2013 or any Distribution Date thereafter. The Declaration of Trust provides that holders of NBC CapS II are not entitled to initiate proceedings for the termination of the Trust.

Pursuant to a Bank Share Exchange Agreement, the Bank will covenant for the benefit of holders of NBC CapS II – Series 2 that, as long as any NBC CapS II – Series 2 are outstanding, the Bank will not approve the termination of the Trust unless the Trust has sufficient funds to pay the Early Redemption Price (if the termination is as a result of action taken by the Bank and occurs prior to June 30, 2020) or the Redemption Price (in all other cases).

Holders of NBC CapS II and holders of Special Trust Securities will rank *pari passu* in the distribution of the property of the Trust in the event of a termination of the Trust, after the discharge of claims of creditors, if any. The entitlement of the holder of each NBC CapS II on a termination of the Trust will be determined by multiplying the Early Redemption Price (if the termination is as a result of action taken by the Bank and occurs prior to a date specified with respect to each series (June 30, 2020 in the case of NBC CapS II – Series 2)) or the Redemption Price (in all other cases), in either case, by the Termination Distribution Ratio. The entitlement of the Bank, as the sole holder of the Special Trust Securities, shall be determined by multiplying the invested amount of the Bank in respect of all Special Trust Securities then outstanding by the Termination Distribution Ratio.

#### ***Additional Bank Covenants***

In addition to the Dividend Stopper Undertakings, the Bank will covenant, for the benefit of holders of NBC CapS II – Series 2 pursuant to a Bank Share Exchange Agreement, that:

- (i) all of the outstanding Special Trust Securities will be held at all times by the Bank; and
- (ii) as long as any NBC CapS II – Series 2 are outstanding, the Bank will not take any action to cause the termination of the Trust except as set forth under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Rights on Termination of the Trust” and only with Superintendent Approval.

The Bank will be entitled to assign or otherwise transfer its obligations under the Bank Share Exchange Agreement only in the event of a merger, consolidation, amalgamation or reorganization or a sale of all or substantially all of the assets of the Bank.

#### ***Issue of Bank Preferred Shares Series 23 in Connection with the Automatic Exchange***

All corporate action necessary for the Bank to issue Bank Preferred Shares Series 23 pursuant to the Automatic Exchange will be completed prior to the completion of the Offering. The issuance of Bank Preferred Shares Series 23 is subject to Superintendent Approval. The Bank has applied to the Superintendent for such approval.

The Bank will undertake, pursuant to the Bank Share Exchange Agreement, to take all such actions as are necessary to permit the Bank Preferred Shares Series 23 delivered pursuant to the Automatic Exchange to be listed, quoted or posted for trading on a Canadian stock exchange or quotation system and to take such reasonable steps as may be necessary to ensure that such Bank Preferred Shares Series 23 remain so listed, quoted or posted for trading.

#### ***Bank Share Exchange Agreement***

Contemporaneously with the completion of the Offering, the Trust, the Bank and the Exchange Trustee, as trustee for the holders of the NBC CapS II – Series 2, will enter into a Bank Share Exchange Agreement providing for the Dividend Stopper Undertakings as well as the grant of and certain rights and obligations relating to the Automatic Exchange and the Subscription Right. Pursuant to such Bank Share Exchange Agreement, the Bank will grant to the Exchange Trustee for the benefit of the holders of NBC CapS II – Series 2 the right to exchange NBC CapS II – Series 2 for Bank Preferred Shares Series 23 upon an Automatic Exchange and the Exchange Trustee on behalf of the holders of NBC CapS II – Series 2 will grant to the Bank the right to exchange NBC CapS II – Series 2 for Bank Preferred Shares Series 23 upon an Automatic Exchange. Pursuant to the Bank Share Exchange Agreement, the Bank will covenant to take or refrain from taking certain actions so as to ensure that holders of NBC CapS II – Series 2 will receive the benefit of the Automatic Exchange, including obtaining the requisite approval of holders of the NBC CapS II – Series 2 to any amendment to the provisions of the Bank Preferred Shares Series 23 (other than any amendments relating to the Bank Preferred Shares as a class).

### ***Voting Rights***

The NBC CapS II – Series 2 are non-voting, except in the limited circumstances set forth in the Declaration of Trust involving changes to the terms and conditions of the NBC CapS II. The Declaration of Trust provides that where such changes affect the terms and conditions of the NBC CapS II – Series 2 differently than any other series of NBC CapS II then outstanding, the terms and conditions may be changed only if authorized by the holders of NBC CapS II – Series 2 by way of a resolution passed by holders of NBC CapS II – Series 2 representing not less than 66 2/3% of the total number of outstanding NBC CapS II – Series 2 represented and voted at a meeting of such holders at which a quorum is present, or a resolution in writing signed by such holders representing not less than 66 2/3% of the outstanding NBC CapS II – Series 2. Any such change must be approved by the Bank and, in addition, any such change that would affect the status of the NBC CapS II – Series 2 as capital of the Bank is subject to Superintendent Approval. The quorum at any such meeting shall be one or more registered holders of NBC CapS II – Series 2 present in person or represented by proxy and owning or representing not less than 25% of the aggregate number of NBC CapS II – Series 2 then outstanding, provided that if a quorum is not present and the meeting is adjourned, at the meeting following such adjournment those registered holders present in person or represented by proxy shall constitute a quorum notwithstanding that they may not represent not less than 25% of the aggregate number of NBC CapS II – Series 2 then outstanding. The Trustee may, without the consent of holders of NBC CapS II – Series 2, execute instruments supplemental to the Declaration of Trust and any other relevant instruments for certain limited purposes, including curing ambiguities or defects and making any modifications that, in the opinion of the Trustee, would not be prejudicial to the interest of holders of NBC CapS II – Series 2 and making such changes as may be required to conform with applicable regulatory requirements from time to time.

### ***Capital Reorganizations and Amalgamations***

In the event of a capital reorganization, merger or amalgamation of the Bank, the terms and conditions of the NBC CapS II – Series 2 provide that holders of NBC CapS II – Series 2 shall be entitled to receive pursuant to the Automatic Exchange, after such capital reorganization, merger or amalgamation, the number of shares of the Bank or other securities or consideration of the Bank or of a corporation resulting, surviving or continuing from the capital reorganization, merger or amalgamation that such holder would have received had his or her NBC CapS II – Series 2 been exchanged, pursuant to the Automatic Exchange, for Bank Preferred Shares Series 23 immediately prior to the record date of the capital reorganization, merger or amalgamation. The entitlement of the Trust under the Subscription Right shall be similarly adjusted.

### ***Book-Entry Only Form***

Except as otherwise provided below, the NBC CapS II – Series 2 will be issued in “book-entry only” form and must be purchased or transferred through Participants in the depository service of CDS. Participants include securities brokers and dealers, banks and trust companies. On the Closing Date, the Trust will cause a global certificate representing the NBC CapS II – Series 2 to be delivered to, and registered in the name of, CDS. Except as described below, no holder of NBC CapS II – Series 2 will be entitled to a certificate or other instrument from the Trust or CDS evidencing that holder’s ownership, and no holder will be shown on the records maintained by CDS except through a book-entry account of a Participant acting on behalf of such holder. Each holder of NBC CapS II – Series 2 will receive a customer confirmation of purchase from the registered dealer from which the NBC CapS II – Series 2 are purchased in accordance with the practices and procedures of that registered dealer. The practices of registered dealers may vary, but generally customer confirmations are issued promptly after execution of a customer order.

CDS will be responsible for establishing and maintaining book-entry accounts for its Participants having interests in the NBC CapS II – Series 2. If: (i) required to do so by applicable law or the rules of any securities exchange; (ii) the book-entry only system ceases to exist; (iii) the Trust determines that CDS is no longer willing or able to discharge properly the responsibilities as depository with respect to the NBC CapS II – Series 2 and the Trust is unable to locate a qualified successor; or (iv) the Trust at its option elects, or is required by law, to withdraw the NBC CapS II – Series 2 from the book-entry only system, then physical certificates representing the NBC CapS II – Series 2 will be issued to holders or their nominees.

None of the Bank, the Trustee or the Underwriters will assume any liability for: (i) any aspect of the records relating to the beneficial ownership of the NBC CapS II – Series 2 held by CDS or the payments or deliveries relating thereto; (ii) maintaining, supervising or reviewing any records relating to the NBC CapS II – Series 2; or (iii) any advice or representation made by or with respect to CDS relating to the rules governing CDS or any action to be taken by CDS or at the direction of Participants. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS, and persons other than Participants having an interest in the NBC CapS II –

Series 2 must look solely to Participants, for payments or deliveries made by or on behalf of the Trust or the Bank to CDS in respect of the NBC CapS II – Series 2.

### ***Transfers***

Transfers of ownership of the NBC CapS II – Series 2 will be effected only through records maintained by CDS for such NBC CapS II – Series 2 with respect to interests of Participants and on the records of Participants with respect to interests of persons other than Participants. Holders of NBC CapS II – Series 2 who are not Participants, but who desire to purchase, sell or otherwise transfer ownership of or other interests in the NBC CapS II – Series 2, may do so only through Participants. The ability of a holder to pledge NBC CapS II – Series 2 or otherwise take action with respect to such holder's interest in NBC CapS II – Series 2 (other than through a Participant) may be limited due to the lack of a physical certificate. See "Risk Factors - Liquidity of and Dealings in NBC CapS II – Series 2".

### ***Payments and Deliveries***

The Trust will make or cause to be made payments of the Indicated Distribution in respect of NBC CapS II – Series 2 to CDS as the registered holder of the NBC CapS II – Series 2 and the Trust understands that such payments will be forwarded by CDS to Participants in accordance with CDS Procedures. Deliveries of Bank Preferred Shares Series 23 in respect of the operation of the Automatic Exchange or upon a redemption of the NBC CapS II – Series 2 by the Trust in the limited circumstances described under "Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange" will be made by the Bank or the Trust, as the case may be, to CDS as the registered holder of the NBC CapS II – Series 2 and the Bank and the Trust understand that such shares will be forwarded by CDS to Participants in accordance with CDS Procedures. As long as CDS is the registered owner of the NBC CapS II – Series 2, CDS will be considered the sole owner of the NBC CapS II – Series 2 for the purposes of receiving payments on the NBC CapS II – Series 2 or the delivery of Bank Preferred Shares Series 23 upon the operation of the Automatic Exchange or upon a redemption of the NBC CapS II – Series 2 by the Trust. As long as the NBC CapS II – Series 2 are held in the CDS book-entry only system, the responsibility and liability of the Trustee or the Bank in respect of the NBC CapS II – Series 2 is limited to making payment of any amount due on the NBC CapS II – Series 2 or making delivery of Bank Preferred Shares Series 23 to CDS or its nominee, as registered holder of NBC CapS II – Series 2.

### **NBC CapS II – Series 1**

On January 22, 2008, the Trust issued 400,000 of the initial series of NBC CapS II designated Trust Capital Securities - Series 1 (the "NBC CapS II - Series 1") at a price of \$1,000 per NBC CapS II - Series 1 for total gross proceeds of \$400,000,000. Holders of NBC CapS II - Series 1 are entitled to receive an Indicated Distribution of \$36.175 per NBC CapS II - Series 1. NBC CapS II - Series 1 may be exchanged automatically under certain circumstances, for Bank Preferred Shares Series 19, paying a semi-annual non-cumulative cash dividend of \$0.6875 per share.

The NBC CapS II - Series 1 and the NBC CapS II – Series 2 rank *pari passu* in distribution of the property of the Trust in the event of a termination of the Trust (together with the Bank as sole holder of the Special Trust Securities) and rank *pari passu* in respect of the Indicated Distributions payable on each series of NBC CapS II.

### **The Special Trust Securities**

#### ***Voting Rights***

The Declaration of Trust provides that the Special Trust Securities are voting. Pursuant to the Declaration of Trust, holders of Special Trust Securities are entitled to vote in respect of, among other things: (i) the termination of the Trust as set forth under "Description of the Trust Securities - The Trust Capital Securities – Series 2 - Rights on Termination of the Trust"; (ii) the removal and replacement of the Trustee; and (iii) the removal and replacement of the Administrative Agent.

#### ***Distributions***

If on December 31 of any year Net Distributable Funds of the Trust remain after payment of the Indicated Distribution on each series of NBC CapS II on each Regular Distribution Date during such year (if any), the Bank as sole holder of the Special Trust Securities will be entitled to receive such remaining Net Distributable Funds on that date. On a Distribution Date that is a Distribution Diversion Date, the Bank as sole holder of the Special Trust Securities, shall be

entitled to receive the Net Distributable Funds of the Trust and no payment of the Indicated Distribution shall be made on the NBC CapS II.

### ***Redemption***

Of the 262,500 Special Trust Securities that will be issued and outstanding as of the Closing Date, 122,500 Special Trust Securities are redeemable at the option of the Trust with the consent of the holder and Superintendent Approval and the remaining 140,000 Special Trust Securities are not redeemable at the option of the Trust or at the option of the holder.

### ***Rights on Termination of the Trust***

In the event of a termination of the Trust, after the discharge of the obligations of the Trust to creditors, the Bank, as sole holder of the Special Trust Securities, will be entitled to participate, *pari passu* with the holders of the NBC CapS II, in the distribution of the remaining property of the Trust. On a termination of the Trust, the Bank, as sole holder of the Special Trust Securities, will be entitled to receive an amount equal to the invested amount of the Bank in respect of all Special Trust Securities then outstanding multiplied by the Termination Distribution Ratio.

## **DESCRIPTION OF BANK PREFERRED SHARES SERIES 23**

### **Certain Provisions of the Bank Preferred Shares as a Class**

#### ***Issuable in Series***

The Bank Preferred Shares may be issued, from time to time, in one or more series with such series rights, privileges, restrictions and conditions as the Board of Directors of the Bank may determine by resolution.

#### ***Priority***

The Bank Preferred Shares of each series rank on a parity with the Bank Preferred Shares of every other series and are entitled to preference over the Bank Common Shares and over any other shares ranking junior to the Bank Preferred Shares with respect to the payment of dividends and in the distribution of property in the event of the liquidation, dissolution or winding-up of the Bank.

#### ***Creation and Issues of Shares***

Pursuant to the Bank Act, the Bank may not, without the approval of the holders of the Bank Preferred Shares, create any other class of shares ranking equal with or superior to the Bank Preferred Shares. In addition, the Bank may not, without the prior approval of the holders of the Bank Preferred Shares as a class given as specified below under “Shareholder Approvals” (in addition to such approvals as may be required by the Bank Act or any other legal requirement), (i) create or issue any shares ranking in priority to or *pari passu* with the Bank Preferred Shares; or (ii) create or issue any additional series of Bank Preferred Shares unless at the date of such creation or issuance all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Bank Preferred Shares then issued and outstanding and all declared and unpaid non-cumulative dividends shall have been paid or set aside for payment in respect of each series of non-cumulative Bank Preferred Shares then issued and outstanding. Currently, there are no outstanding Bank Preferred Shares which carry the right to cumulative dividends.

#### ***Voting Rights***

The holders of the Bank Preferred Shares are not entitled to any voting rights except as provided below or by law, or as otherwise provided in the rights, privileges, restrictions and conditions attaching to any series of Bank Preferred Shares, or with respect to the right to vote on certain matters as specified below under “Shareholder Approvals”.

#### ***Shareholder Approvals***

The approval of all amendments to the provisions attaching to the Bank Preferred Shares as a class and any other approval to be given by the holders of the Bank Preferred Shares may be given in writing by the holders of not less than all of the outstanding Bank Preferred Shares or by a resolution passed by the affirmative vote of not less than 66 2/3% of the votes

cast at a meeting of holders of Bank Preferred Shares duly held for the purpose of considering the subject matter of such resolution at which a quorum of the outstanding Bank Preferred Shares is represented in person or by proxy. A quorum at any meeting of holders of Bank Preferred Shares is a majority of the outstanding Bank Preferred Shares, except at an adjourned meeting there is no quorum requirement.

### **Description of Bank Preferred Shares Series 23 as a Series**

#### ***Issue Price***

The Bank Preferred Shares Series 23 will have an issue price of \$25.00 per share.

#### ***Dividends***

The holders of the Bank Preferred Shares Series 23 will be entitled to receive, in respect of each Bank Preferred Share Series 23, semi-annual non-cumulative preferential cash dividends, as and when declared by the Board of Directors, payable on the last day of June and December in each year (subject to adjustment on the first such payment date if the Bank Preferred Shares Series 23 have been issued and outstanding for less than 6 months) equal to \$0.75.

#### ***Redemption***

The Bank Preferred Shares Series 23 will not be redeemable prior to July 31, 2013. On and after July 31, 2013, but subject to the provisions of the Bank Act and the prior approval of the Superintendent and the provisions described below under “Description of the Bank Preferred Shares Series 23 - Restrictions on Dividends and Retirement of Shares”, the Bank may redeem at any time all, or from time to time any part, of the outstanding Bank Preferred Shares Series 23, at the Bank’s option without the consent of the holder, by the payment of an amount in cash for each such share so redeemed equal to (i) \$26.00 per share if redeemed on or prior to June 30, 2014; (ii) \$25.75 per share if redeemed after June 30, 2014 and on or prior to June 30, 2015; (iii) \$25.50 per share if redeemed after June 30, 2015 and on or prior to June 30, 2016; (iv) \$25.25 per share if redeemed after June 30, 2016 and on or prior to June 30, 2017; or (v) \$25.00 per share if redeemed after June 30, 2017, plus, in each case, all declared and unpaid dividends up to but excluding the date fixed for redemption.

Written notice of any redemption will be given by the Bank at least 30 and not more than 60 days prior to the date fixed for redemption. If less than all the outstanding Bank Preferred Shares Series 23 are at any time to be redeemed, the shares to be redeemed will be selected by lot or pro rata disregarding fractions or in such other manner as the Bank may determine. Reference is also made to “The Bank - Limitations Affecting Holders of Bank Shares”.

#### ***Conversion into Another Series of Bank Preferred Shares at the Option of the Holder***

The Bank may, by resolution of the Board of Directors, constitute a further series of Bank Preferred Shares (the “New Bank Preferred Shares”) having rights, privileges, restrictions and conditions attaching thereto which would qualify such New Bank Preferred Shares as risk-based Tier 1 Capital of the Bank under the then current Capital Guidelines if applicable, and if not applicable having such rights, privileges, restrictions and conditions as the Board of Directors may determine, provided that, in each case, such New Bank Preferred Shares do not constitute “short term preferred shares” under the Tax Act. In such event, the Bank may, with Superintendent Approval, give holders of the Bank Preferred Shares Series 23 written notice that they have the right, pursuant to the terms of the Bank Preferred Shares Series 23, at their option, to convert their Bank Preferred Shares Series 23 on the date specified in the notice into fully-paid New Bank Preferred Shares on a share for share basis. Notice shall be given by the Bank in writing not more than 60 days and not less than 30 days prior to such Conversion Date.

Upon exercise by the holder of this right to convert Bank Preferred Shares Series 23 into New Bank Preferred Shares, the Bank reserves the right not to issue New Bank Preferred Shares to any Ineligible Person. See “The Bank - Limitations Affecting Holders of Bank Shares”.

#### ***Presentation for Conversion, Redemption or Sale***

A conversion, redemption or sale to the Bank of Bank Preferred Shares Series 23 will be effected by the holder transferring such holder’s Bank Preferred Shares Series 23 to be converted, redeemed or sold, as the case may be, to the account of the Bank in CDS (or, in the event that the Bank Preferred Shares Series 23 are not then issued in book-entry only

form, by depositing with the transfer agent for the Bank Preferred Shares Series 23, at one of its principal offices, certificates representing such Bank Preferred Shares Series 23).

### ***Purchase for Cancellation***

Subject to the provisions of the Bank Act and to Superintendent Approval and to the provisions described below under “Description of the Bank Preferred Shares Series 23 - Description of Bank Preferred Shares Series 23 as a Series - Restrictions on Dividends and Retirement of Shares”, the Bank may at any time purchase for cancellation any Bank Preferred Share Series 23 at the lowest price or prices at which in the opinion of the Board of Directors such shares are obtainable.

### ***Rights on Liquidation***

In the event of the liquidation, dissolution or winding-up of the Bank, the holders of the Bank Preferred Shares Series 23 shall be entitled to receive \$25.00 per share, together with the amount of declared and unpaid dividends to the date of payment before any amount shall be paid or any assets of the Bank distributed to the holders of Bank Common Shares or any shares ranking junior to the Bank Preferred Shares Series 23. The holders of the Bank Preferred Shares Series 23 shall not be entitled to share in any further distribution of the property or assets of the Bank.

### ***Restrictions on Dividends and Retirement of Shares***

So long as any of the Bank Preferred Shares Series 23 are outstanding, the Bank will not, without the approval of the holders of the Bank Preferred Shares Series 23 given as specified below:

- (a) declare any dividend on the Bank Common Shares or any other shares ranking junior to the Bank Preferred Shares Series 23 (other than stock dividends on shares ranking junior to the Bank Preferred Shares Series 23); or
- (b) redeem, purchase or otherwise retire any Bank Common Shares or any other shares ranking junior to the Bank Preferred Shares Series 23 (except out of the net cash proceeds of a substantially concurrent issue of shares ranking junior to the Bank Preferred Shares Series 23); or
- (c) redeem, purchase or otherwise retire less than all the Bank Preferred Shares Series 23; or
- (d) except pursuant to any purchase obligation, sinking fund, retraction privilege or mandatory redemption provisions attaching to any series of preferred shares of the Bank, redeem, purchase or otherwise retire any other shares ranking on a parity with the Bank Preferred Shares Series 23;

unless all dividends up to and including those payable on the dividend payment date for the last completed period for which dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Bank Preferred Shares then issued and outstanding and on all other cumulative shares ranking on a parity with the Bank Preferred Shares and there shall have been paid or set apart for payment all declared dividends in respect of each series of non-cumulative Bank Preferred Shares (including the Bank Preferred Shares Series 23) then issued and outstanding and on all other non-cumulative shares ranking on a parity with the Bank Preferred Shares.

### ***Issue of Additional Series of Bank Preferred Shares***

The Bank may issue other series of Bank Preferred Shares ranking on a parity with the Bank Preferred Shares Series 23, without the authorization of the holders of the Bank Preferred Shares Series 23, if at the date of such issuance all cumulative dividends up to and including the dividend payment for the last completed period for which such cumulative dividends shall be payable shall have been declared and paid or set apart for payment in respect of each series of cumulative Bank Preferred Shares then issued and outstanding and any declared and unpaid non-cumulative dividends shall have been paid or set apart for payment in respect of each series of non-cumulative Bank Preferred Shares then issued and outstanding.

### ***Shareholder Approvals***

The approval of any amendments to the rights, privileges, restrictions and conditions attaching to the Bank Preferred Shares Series 23 may be given by a resolution carried by the affirmative vote of not less than 66 2/3% of the votes cast at a meeting of holders of Bank Preferred Shares Series 23 at which a majority of the outstanding Bank Preferred Shares Series

23 is represented or, if no quorum is present at the meeting, at a meeting following such adjourned meeting at which no quorum would apply. Pursuant to the Bank Share Exchange Agreement, the Bank will covenant that for so long as any NBC CapS II – Series 2 are outstanding no amendment will be made to the rights, privileges, restrictions and conditions of the Bank Preferred Shares Series 23 (other than any amendments relating to the Bank Preferred Shares as a class) without the prior approval of 66 2/3% of the holders of the NBC CapS II – Series 2.

In addition to the aforementioned approval, the Bank may from time to time with the approval of the Superintendent, make such deletions or variations which might affect the classification afforded to the Bank Preferred Shares Series 23 for capital adequacy requirements pursuant to the Bank Act.

### ***Voting Rights***

The holders of the Bank Preferred Shares Series 23 as such will not be entitled to receive notice of or to attend or to vote at any meeting of the shareholders of the Bank unless and until the first time at which the Board of Directors of the Bank has not declared the whole dividend on the Bank Preferred Shares Series 23 in any semi-annual period. In that event, the holders of the Bank Preferred Shares Series 23 will be entitled to receive notice of, and to attend, all meetings of shareholders at which directors are to be elected and will be entitled to one vote for each share held. The voting rights of the holders of the Bank Preferred Shares Series 23 shall forthwith cease upon payment by the Bank of the first dividend on the Bank Preferred Shares Series 23 to which the holders are entitled subsequent to the time such voting rights first arose. At such time as the rights of such holders to any undeclared dividends on the Bank Preferred Shares Series 23 have again become extinguished, such voting rights shall become effective again and so on from time to time.

### ***Tax Election***

The Bank will elect, in the manner and within the time provided under Part VI.1 of the Tax Act, to pay tax at a rate such that holders of Bank Preferred Shares Series 23 will not be required to pay tax on dividends received on the Bank Preferred Shares Series 23 under Part IV.1 of such Act.

### ***Book-Entry Only Form***

Unless the Bank elects otherwise, the Bank Preferred Shares Series 23 will be issued in “book-entry only” form, and may be purchased, held and transferred in substantially the same manner as the NBC CapS II. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Book-Entry Only Form”.

## **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of McCarthy Tétrault LLP, counsel to the Bank and the Trust, and Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, the following is a summary of the principal Canadian federal income tax considerations generally applicable to the Trust and a holder of NBC CapS II – Series 2 who acquires NBC CapS II – Series 2 under the Offering and who, for purposes of the Tax Act at all relevant times, is resident or deemed to be resident in Canada, deals at arm’s length and is not affiliated with the Bank and the Trust, holds the NBC CapS II – Series 2 and any Bank Preferred Shares Series 23 as capital property, is not exempt from tax under Part I of the Tax Act, and does not hold the NBC CapS II – Series 2, any Bank Preferred Shares Series 23 acquired on an exchange or redemption of NBC CapS II – Series 2 or any New Bank Preferred Shares in a Deferred Income Plan. This summary does not take into account (other than in respect of the Trust) the “mark-to-market” rules contained in the Tax Act which apply to certain financial institutions and does not apply to a holder to whom the “functional currency” reporting rules in the Tax Act apply. Furthermore, the part of this summary dealing with the Bank Preferred Shares Series 23 does not apply to a “specified financial institution” (as defined in the Tax Act) that, either alone or together with non-arms’ length persons, receives (or is deemed to receive) in the aggregate dividends in respect of more than 10% of the Bank Preferred Shares Series 23 outstanding at the time a dividend is received. This summary also assumes that all issued and outstanding Bank Preferred Shares Series 23 are listed on a designated stock exchange in Canada (as defined in the Tax Act) at such time as dividends (including deemed dividends) are paid or received on such shares.

**The summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular investor. Consequently, investors are urged to consult their own tax advisers with respect to their particular circumstances.**

This summary is based upon the current provisions of the Tax Act and the regulations issued thereunder, all Tax Proposals, counsel’s understanding of the current administrative and assessing policies of the Canada Revenue Agency

published in writing by it and a certificate of an officer of the Administrative Agent. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not take into account any changes in law or administrative and assessing policies, whether by legislative, governmental or judicial decision or action, nor does it take into account or consider any other federal tax considerations or provincial, territorial or foreign tax considerations.

This summary is also based on the assumption that the Trust will at no time be a “SIFT trust” (specified investment flow-through trust) as defined in the Tax Act. Provided that the Trust does not hold “non-portfolio property”, as defined in the Tax Act, it will not be a SIFT trust. The Declaration of Trust restricts the Trust from holding any “non-portfolio properties”.

## **NBC CapS II – Series 2**

### ***Taxation of the Trust***

In each taxation year of the Trust, the net income and net realized capital gains, if any, of the Trust as would otherwise be taxable in the Trust will be payable to holders of NBC CapS II – Series 2 or the Bank as sole holder of the Special Trust Securities. Consequently, the Trust will not be liable for income tax under Part I of the Tax Act. Capital or income losses incurred by the Trust cannot be allocated to holders of the NBC CapS II – Series 2 or the Bank as sole holder of the Special Trust Securities but may, subject to certain limitations, be deducted by the Trust from taxable capital gains or net income realized in other years.

As a registered investment, the Trust is potentially subject to special taxes under the Tax Act. The Trust intends to restrict its investments in a manner that it will not be subject to any of these special taxes.

The Tax Act provides for a special tax on the designated income of certain trusts which have designated beneficiaries. This special tax will not apply to the Trust.

### ***Taxation of Holders of NBC CapS II – Series 2***

#### ***Distributions***

A holder of NBC CapS II – Series 2 will be required to include in computing the holder’s income for a taxation year all net income and net realized capital gains, if any, payable to the holder in such taxation year. Substantially all of the amounts payable to holders of NBC CapS II – Series 2 are expected to be treated as income from a trust, rather than capital gains, for income tax purposes. A holder that is a Canadian controlled private corporation (as defined in the Tax Act) may be subject to an additional refundable tax of 6 $\frac{2}{3}$ % on the amounts payable to it, including any income designated as capital gains. See “Disposition” below for a discussion of the tax treatment of capital gains.

#### ***Disposition***

A holder of NBC CapS II – Series 2 who disposes of or is deemed to dispose of the NBC CapS II – Series 2 will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the NBC CapS II – Series 2 to the holder. A disposition or deemed disposition of a holder’s NBC CapS II – Series 2 will be considered to occur on, amongst other events (a) an exchange of the NBC CapS II – Series 2 for Bank Preferred Shares Series 23 pursuant to the Automatic Exchange (on which event a holder’s proceeds of disposition will be equal to the fair market value of the Bank Preferred Shares Series 23 received on the exchange), (b) a redemption of the NBC CapS II – Series 2 on the exercise of the Trust Special Event Redemption Right or the Trust Redemption Right (on which event a holder’s proceeds of disposition will be equal to the Early Redemption Price or the Redemption Price, as the case may be), and (c) a termination of the Trust.

One-half of any such capital gain will be included in computing the holder’s income as a taxable capital gain and one-half of any such loss may be deducted from the holder’s taxable capital gains in accordance with the rules contained in the Tax Act. Taxable capital gains of a Canadian-controlled private corporation may be subject to an additional refundable tax of 6  $\frac{2}{3}$ % of such taxable gains. Capital gains realized by an individual may give rise to alternative minimum tax under the Tax Act.

## *Automatic Exchange*

The Bank and the Exchange Trustee have been advised by National Bank Financial Inc. that the value to holders of the NBC CapS II – Series 2 of the Automatic Exchange is nominal. Based on that valuation, no gain will be realized by holders of NBC CapS II – Series 2 upon the granting of such rights. Counsel expresses no opinion as to the appropriateness or accuracy of this valuation. Any determination of value is not binding upon the Canada Revenue Agency.

## **Bank Preferred Shares Series 23**

### ***Dividends***

Dividends (including deemed dividends) received on the Bank Preferred Shares Series 23 by an individual will be included in the individual's income and will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit rules applicable to any dividends designated as eligible dividends in accordance with the provisions of the Tax Act. Dividends (including deemed dividends) on the Bank Preferred Shares Series 23 received by a corporation will be included in computing its income and will generally be deductible in computing its taxable income.

The Bank Preferred Shares Series 23 will be taxable preferred shares as defined in the Tax Act. The terms of the Bank Preferred Shares Series 23 require the Bank to make the necessary election under Part VI.1 of the Tax Act so that corporate shareholders will not be subject to tax under Part IV.1 of the Tax Act on dividends received (or deemed to be received) on the Bank Preferred Shares Series 23.

A private corporation, as defined in the Tax Act, or any other corporation controlled whether by reason of a beneficial interest in one or more trusts or otherwise by or for the benefit of an individual or a related group of individuals, will generally be liable to pay a 33 1/3% refundable tax under Part IV of the Tax Act on dividends received (or deemed to be received) on the Bank Preferred Shares Series 23 to the extent such dividends are deductible in computing its taxable income.

### ***Disposition***

A holder of Bank Preferred Shares Series 23 who disposes of or is deemed to dispose of the Bank Preferred Shares Series 23 (either on purchase for cancellation or redemption of the shares for cash or otherwise but not on a conversion of the Bank Preferred Shares Series 23 into New Bank Preferred Shares) will generally realize a capital gain (or sustain a capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of such shares to the holder thereof. The amount of any deemed dividend arising on the redemption, acquisition or cancellation by the Bank of the Bank Preferred Shares Series 23 will generally not be included in computing a holder's proceeds of disposition for purposes of computing the capital gain or loss arising on the disposition of such shares. If the shareholder is a corporation, any such capital loss may in certain circumstances be reduced by the amount of any dividends, including deemed dividends, which have been received on such shares. Analogous rules apply to a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. See "Taxation of Holders of NBC CapS II – Series 2 - Disposition" above for a discussion of the tax treatment of capital gains or losses.

### ***Redemption and Conversion***

If the Bank redeems for cash or otherwise acquires the Bank Preferred Shares Series 23, other than by a purchase in the manner in which shares are normally purchased by a member of the public in the open market or by reason of a conversion of the Bank Preferred Shares Series 23 into another series of Bank Preferred Shares, the holder will be deemed to have received a dividend equal to the amount, if any, paid by the Bank in excess of the paid-up capital of such shares at such time. The difference between the amount paid and the amount of the deemed dividend will be treated as proceeds of disposition for the purposes of computing the capital gain or capital loss arising on the disposition of such shares. In the case of a corporate shareholder, it is possible that in certain circumstances all or part of the amount so deemed to be a dividend may be treated as proceeds of disposition and not as a dividend.

The conversion of the Bank Preferred Shares Series 23 for New Bank Preferred Shares by the holder will be deemed not to be a disposition of property and accordingly will not give rise to any deemed dividend or capital gain or capital loss. The cost to a holder of New Bank Preferred Shares will be deemed to be equal to the holder's adjusted cost base of the Bank Preferred Shares Series 23 so converted.

## PLAN OF DISTRIBUTION

Under an agreement dated June 25, 2008 (the “Underwriting Agreement”) between the Trust, the Bank and National Bank Financial Inc., RBC Dominion Securities Inc., Merrill Lynch Canada Inc., CIBC World Markets Inc., TD Securities Inc., BMO Nesbitt Burns Inc., HSBC Securities (Canada) Inc., Scotia Capital Inc., Laurentian Bank Securities Inc., Casgrain & Company Limited and Desjardins Securities Inc. (collectively, the “Underwriters”), as underwriters, the Trust has agreed to sell, and the Underwriters have severally agreed to purchase all but not less than all of the NBC CapS II – Series 2, on June 30, 2008, or such later date as may be agreed upon but not later than July 25, 2008, subject to the terms and conditions stated therein, at a price of \$1,000 per NBC CapS II – Series 2, payable in cash to the Trust against delivery of such NBC CapS II – Series 2. The Trust has agreed to pay to the Underwriters a fee per NBC CapS II – Series 2 equal to \$10 per NBC CapS II – Series 2 for an aggregate Underwriters’ fee of \$3,500,000.

The obligations of the Underwriters under the Underwriting Agreement may be terminated, at their discretion, on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all the NBC CapS II – Series 2 if any of the NBC CapS II – Series 2 are purchased under the Underwriting Agreement.

The Offering is being made concurrently in all provinces of Canada. The NBC CapS II – Series 2 have not been and will not be registered under the U.S. Securities Act. The Underwriters have agreed not to, directly or indirectly, offer for sale or sell the NBC CapS II – Series 2 in the United States, its territories or its possessions or to or for the account or benefit of any U.S. Person within the meaning of Regulation S under the U.S. Securities Act.

National Bank Financial Inc., one of the Underwriters, is an indirect wholly owned subsidiary of the Bank. Each of the Trust and the Bank is a related issuer of National Bank Financial Inc. under applicable securities legislation by virtue of the Bank's interest in the Trust and National Bank Financial Inc. The terms of the Offering were negotiated at arm's length between the Bank, the Trust and the Underwriters. National Bank Financial Inc. will not receive any benefit in connection with the Offering other than as described herein. RBC Dominion Securities Inc., an underwriter in respect of which neither the Trust nor the Bank is a related or connected issuer, has participated in the structuring and pricing of the Offering, and in the due diligence activities performed by the Underwriters for the Offering.

Pursuant to policy statements of certain securities regulators, the Underwriters may not, throughout the period of distribution under this prospectus, bid for or purchase NBC CapS II – Series 2. The foregoing restriction is subject to certain exceptions, as long as the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in or raising the price of such securities. These exceptions include a bid or purchase permitted under the Universal Market Integrity Rules administered by Market Regulation Services Inc. relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer when the order was not solicited during the period of distribution provided that the bid or purchase was not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, such securities. Pursuant to the first mentioned exception, in connection with this Offering and subject to applicable law, the Underwriters may effect the transactions which stabilize or maintain the market price of such securities at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

## RATINGS

The NBC CapS II – Series 2 have been provisionally rated “P-2 (High)” by S&P using S&P’s Canadian national scale for preferred shares and “BBB+” by S&P using S&P’s global scale for preferred shares. The “P-2 (High)” rating is the second highest of eight categories of ratings used by S&P on its Canadian preferred share scale, and the “BBB+” rating is the fourth highest of the nine categories used by S&P on its global preferred share scale. A reference to “high”, “low” or “+/-” reflects the relative strength within the rating category. The absence of either a “high”, “low” or “+/-” designation indicates the rating is in the middle of the category where such designations are used. Preferred share ratings address the issuer’s capacity and willingness to pay dividends and principal on a timely basis. They address the likelihood of timely payment of dividends, notwithstanding the legal ability to pass on or defer a dividend payment.

The NBC CapS II – Series 2 have been provisionally rated “A” with a stable trend by DBRS. The “A” rating is the third highest of ten categories of ratings available from DBRS for long term debt generally. A reference to “high” or “low” reflects the relative strength within the rating category and the stable trend refers to DBRS’s outlook regarding the rating. The absence of either a “high” or “low” designation indicates the rating is in the middle of the category where such designations are used. The DBRS long term debt rating scale is meant to give an indication of the risk that a borrower will

not fulfill its obligations in a timely manner, with respect to both interest and principal commitments. Long term debt rated “A” is of satisfactory credit quality.

The NBC CapS II – Series 2 have been provisionally rated “A1” by Moody’s. The “A” rating is the third highest of nine categories of ratings available from Moody’s for debt generally. Moody’s uses “1”, “2”, and “3” modifiers to indicate the relative standing of the securities being rated within a particular rating category.

Prospective purchasers of The NBC CapS II – Series 2 should consult the rating organization with respect to the interpretation and implications of the foregoing provisional ratings. None of the foregoing ratings should be construed as a recommendation to buy, sell or hold the NBC CapS II – Series 2 offered hereby. Any of the foregoing ratings may be revised or withdrawn at any time by the assigning rating organization.

### **PRIOR SALES**

On January 22, 2008, the Trust issued 400,000 non-voting transferable trust units called Trust Capital Securities – Series 1 or “NBC CapS II – Series 1” at a price of \$1,000 per NBC CapS II – Series 1. Holders of NBC CapS II – Series 1 are entitled to receive an Indicated Distribution of \$36.175 per NBC CapS II – Series 1. NBC CapS II – Series 1 may be exchanged automatically under certain circumstances, for Bank Preferred Shares Series 19, paying a semi-annual non-cumulative cash dividend of \$0.6875 per share.

### **USE OF PROCEEDS**

The gross proceeds to the Trust from the sale of the NBC CapS II – Series 2 offered hereby and the sale of the Special Trust Securities to the Bank will be \$472,500,000. The Trust will use such gross proceeds to fund the acquisition by the Trust of the Trust Assets on a fully-serviced basis from the Bank upon the closing of the Offering. See “Activities of the Trust”.

The following table illustrates the use of the gross proceeds received by the Trust on the Closing Date from the sale of the NBC CapS II – Series 2 offered hereby and of the Special Trust Securities described above.

Gross proceeds from the sale of Special Trust Securities to the Bank .....	\$	122,500,000
Gross proceeds from the Offering .....	\$	350,000,000
Gross proceeds to be applied to the purchase of the Trust Assets .....	\$	472,500,000

The Bank expects that the proceeds from the sale of the Trust Assets will be included in the Tier 1 Capital of the Bank (assuming the Superintendent approves the inclusion of NBC CapS II – Series 2 as Tier 1 Capital of the Bank). See “National Bank of Canada — Capital Adequacy Requirements”. The Bank intends to use the proceeds from the sale of the Trust Assets for general corporate purposes.

### **MATERIAL CONTRACTS**

The material contracts of the Trust in connection with the Offering are as follows:

1. the Administration and Advisory Agreement described under “Activities of the Trust - The Administrative Agent”;
2. the Declaration of Trust described under “The Trust”;
3. the Mortgage Sales, Pooling and Servicing Agreement described under “The Trust”;
4. the Purchase Agreements described under “Activities of the Trust - Description of Eligible Trust Assets”;
5. the Bank Share Exchange Agreement described under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Bank Share Exchange Agreement”;
6. the Credit Facility described under “Activities of the Trust - Liquidity”;

7. the Subscription Agreement”; and
8. the Underwriting Agreement described under “Plan of Distribution”.

Copies of these agreements may be inspected at the executive offices of the Bank during regular business hours on any business day during the period of distribution.

## **RISK FACTORS**

*Investors should carefully consider the risks described below before deciding whether to invest in any NBC CapS II – Series 2. Investors should also carefully consider any risks that may be described in other filings the Bank makes with securities or banking regulators including, without limitation, the Bank’s Management’s Discussion and Analysis of Financial Condition and Results of Operations for the year ended October 31, 2007 and the six month period ended April 30, 2008 incorporated by reference in this Prospectus. This analysis discusses, among other things, known material trends and events, and risks or uncertainties, including the successful resolution of the ABCP market restructuring, that are reasonably expected to have a material effect on the Bank’s business, financial condition or results of operations. Additional risks and uncertainties not presently known to the Bank may also impair its business operations. If it does not successfully address any of the risks described below or in other filings incorporated by reference, there could be a material adverse effect on its business, financial condition or results of operations. As a result, the Bank cannot assure an investor that it will successfully address these risks.*

### **Interest Rate Risk**

Prevailing yields on similar securities will affect the market value of the NBC CapS II – Series 2 and the Bank Preferred Shares Series 23. Assuming all other factors remain unchanged, the market value of the NBC CapS II – Series 2 and the Bank Preferred Shares Series 23 will decline as prevailing yields for similar securities rise. Spreads over the Government of Canada Yield and comparable benchmark rates of interest for similar securities will also affect the market value of the NBC CapS II – Series 2 and the Bank Preferred Shares Series 23. The Trust’s income will consist primarily of interest payments on the Trust Assets held by it. Because the Indicated Distribution in respect of the NBC CapS II – Series 2 is fixed until June 30, 2020, there can be no assurance that an interest rate environment in which there is a significant decline in interest rates would not adversely affect the Trust’s ability to pay the Indicated Distribution on the NBC CapS II – Series 2 in full on each Regular Distribution Date. It is, however, in the Bank’s interest to ensure, to the extent within its control, that the Trust complies with its obligation to pay the Indicated Distribution on the NBC CapS II – Series 2 on each Regular Distribution Date to avoid triggering the Dividend Stopper Undertakings.

### **Redemption of NBC CapS II – Series 2**

The Trust may choose to redeem the NBC CapS II – Series 2 from time to time, in accordance with its rights described under the heading “Description of the Trust Securities – Trust Capital Securities – Series 2 - Trust Redemption Right”, including when prevailing interest rates are lower than the rate borne by the NBC CapS II – Series 2. If prevailing rates are lower at the time of redemption, a purchaser may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on, or on comparable payment terms as, the NBC CapS II – Series 2 being redeemed. On or after June 30, 2020, the Trust may redeem NBC CapS II – Series 2, without premium, at a redemption price equal to the principal amount, together with accrued and unpaid interest to but excluding the date fixed for redemption. See “Description of the Trust Securities – Trust Capital Securities – Series 2 - Trust Redemption Right”.

### **Credit Rating**

Real or anticipated changes in credit ratings on the NBC CapS II – Series 2, or the Bank Preferred Shares Series 23, as the case may be, may affect the market value of such securities.

### **Automatic Exchange of NBC CapS II – Series 2 for Bank Preferred Shares Series 23**

The purchase of NBC CapS II – Series 2 involves risk with respect to the capital levels and solvency of the Bank. In the event of decline in the capital levels of the Bank or the Bank becoming insolvent or bankrupt or resolving to wind-up or liquidate or being ordered wound-up or liquidated or the occurrence of any other event constituting a Loss Absorption Event, the NBC CapS II – Series 2 will be automatically exchanged for Bank Preferred Shares Series 23, without the consent of the holders. Such shares are an investment in the Bank and not in the Trust. Holders of NBC CapS II – Series 2 could become

shareholders of the Bank at a time when the Bank's financial condition is deteriorating or when the Bank has become insolvent or bankrupt or resolved to wind-up or has been ordered wound-up or liquidated or upon the occurrence of any other event constituting a Loss Absorption Event.

The Indicated Distribution payable on the NBC CapS II – Series 2 after June 30, 2020 will be based on a floating rate and will vary from time to time. The Bank Preferred Shares Series 23 that will be issued to holders upon the operation of the Automatic Exchange will pay a fixed semi-annual, non-cumulative preferential cash dividend of \$0.75. There can be no guarantee that, if the Automatic Exchange occurs after June 30, 2020, the dividend payable on the Bank Preferred Shares Series 23 will not be less than the Indicated Distribution that would otherwise have been payable on the NBC CapS II – Series 2 had the Automatic Exchange not occurred or that such dividend will not be less than the prevailing market rates for similar instruments. In addition, the dividend payable on the Bank Preferred Shares Series 23 may not reflect a market rate for similar instruments at the date of issuance.

An investment in the Bank is also subject to certain risks that are distinct from the risks associated with an investment in the Trust. In the event of a liquidation of the Bank, the claims of depositors and creditors of the Bank would be entitled to a priority of payment over the claims of holders of equity interests such as the Bank Preferred Shares Series 23. As a result, if the Bank were to become insolvent or bankrupt or resolved to wind-up or was ordered wound-up or liquidated after the Automatic Exchange or if the Automatic Exchange were to occur after the insolvency of the Bank, the holders of the Bank Preferred Shares Series 23 may receive, if anything, substantially less than the holders of the NBC CapS II – Series 2 would have received had the NBC CapS II – Series 2 not been exchanged for Bank Preferred Shares Series 23.

Potential investors in the NBC CapS II – Series 2 should carefully consider the description of the Bank set forth under “The Bank”. See also “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange”.

#### **Indicated Distribution is Non-Cumulative**

The Indicated Distribution on the NBC CapS II – Series 2 is non-cumulative. The Indicated Distribution on the NBC CapS II – Series 2 is payable by the Trust on each Regular Distribution Date out of Net Distributable Funds of the Trust. If the Indicated Distribution on the NBC CapS II – Series 2 for any Distribution Date is not paid by reason of the occurrence of a Distribution Diversion Event, holders of NBC CapS II – Series 2 will not be entitled to receive such Indicated Distribution. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Indicated Distribution”.

#### **Perpetual Nature of NBC CapS II – Series 2**

The NBC CapS II – Series 2 have no fixed final maturity date and holders of NBC CapS II – Series 2 have no rights to call for the redemption of the NBC CapS II – Series 2.

#### **Income From Trust**

There can be no assurance that the net income and gains derived from the Trust Assets by the Trust will be sufficient to satisfy the Indicated Distribution on the NBC CapS II – Series 2 in full on Regular Distribution Dates.

#### **Restrictions on Ownership of Bank Shares**

Under the Bank Act, no person, or persons acting jointly or in concert, is permitted to have a significant interest in the Bank, unless such person first receives the approval of the Minister of Finance (Canada). See “The Bank - Limitations Affecting Holders of Bank Shares”. Accordingly, certain holders of NBC CapS II – Series 2 who are to acquire Bank Preferred Shares Series 23 upon operation of the Automatic Exchange may have some or all of such shares disposed of on their behalf pursuant to the procedures referred to under “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Automatic Exchange”.

#### **Dependence Upon the Bank and its Affiliates**

The Trust will be dependent for the selection, structuring and monitoring of the Trust Assets on the diligence and skill of the employees of the Bank as Administrative Agent. In addition, potential conflicts of interest may arise between the Trust and the Bank and its affiliates. See “Activities of the Trust - Conflict of Interest Policies”. The Administrative Agent may also retain other persons to perform all or a portion of its obligations under the Administration and Advisory Agreement,

including one or more affiliates involved in the business of managing assets such as the Trust Assets. In the event that the Administrative Agent retains other persons to perform its obligations in such a manner, the Trust will be dependent upon the subcontractor to provide services, however, the Bank will not be discharged or relieved in any respect from its obligations under the Administration and Advisory Agreement. See “Activities of the Trust - The Administrative Agent”.

The Trust will be dependent upon the expertise of the Servicer for the servicing of the assets acquired under the Mortgage Sales, Pooling and Servicing Agreement and the Purchase Agreements. In addition, potential conflicts of interest may arise between the Trust and the Bank and its affiliates. The Servicer of the Trust Assets may also subcontract all or a portion of its obligations under the Mortgage Sales, Pooling and Servicing Agreement to one or more affiliates involved in the business of managing assets such as the Trust Assets. In the event that the Servicer subcontracts its obligations in such a manner, the Trust will be dependent upon the subcontractor to provide services, however, the Servicer will not be discharged or relieved in any respect from its obligations under the Mortgage Sales, Pooling and Servicing Agreement.

The Trustee is a wholly-owned subsidiary of the Bank. See “The Trust”.

### **Liquidity of and Dealings in NBC CapS II – Series 2**

While the NBC CapS II – Series 2 will be eligible for resale in the public market, it is not expected that the NBC CapS II – Series 2 will be listed on any stock exchange. There can be no assurance that an active trading market will develop or be sustained or that the NBC CapS II – Series 2, or the Bank Preferred Shares Series 23, as the case may be, may be resold at or above the initial public offering price. The ability of a holder to pledge NBC CapS II – Series 2 or otherwise take action with respect to its interest in NBC CapS II – Series 2, as the case may be (other than through a Participant) may be limited due to the lack of a physical certificate.

### **PRINCIPAL HOLDERS OF SECURITIES**

The Bank presently owns and it is intended that, at all times following the Closing Date, the Bank will own all of the Special Trust Securities. See “Capitalization of the Trust” and “Use of Proceeds”.

### **INTERESTS OF THE BANK AND ITS AFFILIATES IN MATERIAL TRANSACTIONS**

Pursuant to the Administration and Advisory Agreement, the Bank provides certain advice to the Trust and administers the day-to-day operations of the Trust. In addition, the Bank or its affiliates service the Trust Assets acquired pursuant to the Mortgage Sales, Pooling and Servicing Agreement and the Purchase Agreements and may service other Trust Assets acquired by the Trust from the Bank or its affiliates. In addition, National Bank Financial Inc. is an affiliate of the Bank and will receive a portion of the underwriting fee payable by the Trust on account of services rendered in connection with the Offering. See “Plan of Distribution”.

The Bank and its affiliates may have interests which are not identical to those of the Trust. Consequently, conflicts of interest may arise with respect to transactions, including, without limitation, the sale of the Trust Assets, future acquisitions and dispositions of Trust Assets from or to the Bank or its affiliates, and the renewal, termination or modification of the Administration and Advisory Agreement or the Mortgage Sales, Pooling and Servicing Agreement. It is the intention of the Trust and the Bank that any agreements and transactions between the Trust, on the one hand, and the Bank or its affiliates, on the other hand, are fair to all parties and consistent with market terms, including the prices paid and received for Trust Assets or in connection with the servicing of Trust Assets.

### **LEGAL MATTERS**

Certain legal matters in connection with the Offering will be passed upon by McCarthy Tétraut LLP, on behalf of the Bank and the Trust, and by Osler, Hoskin & Harcourt LLP, on behalf of the Underwriters. The partners, counsel and associates of McCarthy Tétraut LLP and Osler, Hoskin & Harcourt LLP, as a group, beneficially own, directly or indirectly, less than one per cent of any class of security issued by the Trust or the Bank.

### **TRANSFER AGENT AND REGISTRAR AND EXCHANGE TRUSTEE**

Computershare Investor Services Inc. is the transfer agent and registrar and Computershare Trust Company of Canada is the Exchange Trustee in respect of the NBC CapS II – Series 2. The NBC CapS II – Series 2 will be issued in book-entry only form through CDS. See “Description of the Trust Securities - The Trust Capital Securities – Series 2 - Book-

Entry Only Form”. Subject to the CDS Procedures, registration and transfer of the NBC CapS II – Series 2 may be effected at the principal offices of Computershare Trust Company of Canada in Montréal.

#### **AUDITORS**

Samson Bélair/Deloitte & Touche s.e.n.c.r.l., Chartered Accountants, Montréal, Canada are the auditors of the Trust.

#### **LEGAL PROCEEDINGS**

Other than as set out in the Bank’s consolidated financial statements incorporated by reference herein, neither the Trust nor the Bank is involved in any litigation or arbitration proceedings which may have or have had during the twelve months prior to the date hereof a significant effect on the financial position of the Trust or the Bank and its subsidiaries, taken as a whole, nor is the Trust or the Bank aware that any such proceedings are pending or threatened.

#### **PROMOTER**

The Bank is the promoter of the Trust by reason of its taking the initiative in creating, structuring and promoting the Trust. The Bank will not receive any benefits, directly or indirectly, from the issuance of the NBC CapS II – Series 2 other than as described in this prospectus. The Bank has sold and will sell Trust Assets to the Trust. See “Activities of the Trust – Description of the Eligible Trust Assets”. The Bank will receive an administrative fee pursuant to the Administration and Advisory Agreement. The Servicer may receive a servicing fee.

Under the Administration and Advisory Agreement, the Bank will provide services in connection with the Offering of the NBC CapS II – Series 2 and the ongoing operations, maintenance and regulatory compliance of the Trust.

#### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revision of the price or damages where the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province for the particulars of these rights or consult with a legal advisor.

**CERTIFICATE OF THE TRUST**

Dated: June 25, 2008

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

**NBC ASSET TRUST**  
by its Administrative Agent  
NATIONAL BANK OF CANADA

By: (Signed) JEAN DAGENAIS  
Senior Vice-President  
and Chief Financial Officer

By: (Signed) MARTIN OUELLET  
Senior Vice-President  
Corporate Treasury

**CERTIFICATE OF NATIONAL BANK OF CANADA**

Dated: June 25, 2008

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

By: (Signed) LOUIS VACHON  
President and  
Chief Executive Officer

By: (Signed) JEAN DAGENAI  
Senior Vice-President  
and Chief Financial Officer

**On behalf of the Board of Directors**

By: (Signed) GÉRARD COULOMBE  
Director

By: (Signed) PAUL GOBEIL  
Director

## CERTIFICATE OF THE UNDERWRITERS

Dated: June 25, 2008

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada.

NATIONAL BANK FINANCIAL INC.

By: (Signed) MAUDE LEBLOND

RBC DOMINION SECURITIES INC.

By: (Signed) RAJIV BAHL

MERRILL LYNCH CANADA INC.

By: (Signed) RYAN VOEGELI

CIBC WORLD MARKETS INC.

TD SECURITIES INC.

By: (Signed) DARRELL J. BURT

By: (Signed) PAUL NOREAU

BMO NESBITT BURNS INC.

HSBC SECURITIES (CANADA) INC.

SCOTIA CAPITAL INC.

By: (Signed) PETER K. MARCHANT

By: (Signed) LUC BUISSON

By: (Signed) ÉRIC MICHAUD

LAURENTIAN BANK SECURITIES INC.

By: (Signed) MICHEL RICHARD

CASGRAIN & COMPANY LIMITED

DESJARDINS SECURITIES INC.

By: (Signed) GASTON SIMONEAU

By: (Signed) MICHEL DUCHESNE

## **AUDITORS' CONSENT**

We have read the short form prospectus (the "Prospectus") dated June 25, 2008 relating to the issue and sale of \$350,000,000 Trust Capital Securities – Series 2 of NBC Asset Trust (the "Trust"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the Prospectus of our report to the shareholders of National Bank of Canada (the "Bank") on the consolidated balance sheets of the Bank as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. Our report is dated November 28, 2007.

(Signed) SAMSON BÉLAIR / DELOITTE & TOUCHE S.E.N.C.R.L.  
Chartered Accountants  
Montréal, Canada  
June 25, 2008